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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

THURSDAY, JANUARY 28, 1988

Morning Sitting

The issue I have chosen to concentrate on is the relationship between Canada and the United States. As you know, we have a long and close relationship with the United States. We are the only two countries in the world that share a common border. This relationship is important to both countries. On the other hand, there are some differences between the two countries. One of the main differences is in the area of trade. We have a free trade agreement with the United States, but there are still some barriers to trade. This is the issue I am going to talk about today.

First, I am going to talk about the investment in Canada. The investment by multinational companies in Canada is very important. It has helped to create jobs and to grow the economy. However, there are some concerns about the investment. One concern is that the investment is not always in the most important areas of the economy. Another concern is that the investment is not always in the most profitable areas. This is the issue I am going to talk about today.

On the first question, what happens to the investment in Canada if we lower tariffs and so on, there is a very large difference between the investment in the United States and the investment in Canada. The investment in the United States is much larger than the investment in Canada. This is because the United States has a much larger economy than Canada. This is the issue I am going to talk about today.

First of all, I agree with the view that there is a need for more investment in Ontario and in Canada. This is because the economy is not growing fast enough. This is the issue I am going to talk about today.



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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, January 28, 1988

The committee met at 10:04 a.m. in room 228.

TRADE WITH UNITED STATES
(continued)

The Vice-Chairman: Professor Safarian, let me first welcome you today. As members know, and for the record, we have before us today Professor Edward Safarian from the economics department of the University of Toronto. The professor has indicated that he has a presentation that I hope everyone has a copy of. Subsequent to that he is prepared to answer any and all questions, we hope, from the committee.

Welcome, professor, and we are ready when you are.

DR. EDWARD SAFARIAN

Dr. Safarian: Ladies and gentlemen, I am delighted to be here to share with you some of my ideas on the proposed Canada-United States free trade agreement. This is a vast topic, as you know. I am going to concentrate on one aspect of it on which I have done a bit of work, and I have brought along with me a paper which summarizes what I have to say about it. I have a couple of other technical papers that give all the footnote references and that sort of thing that I left out of the statement I am going to make today. I am prepared, of course, to talk about other topics with respect to free trade, within my knowledge and competence.

The issue I have chosen to concentrate on is the investment aspects. Canadians, as you know, have a love-hate relationship with multinationals. On the one hand, because we have some concerns about them, we like to regulate them in various ways. On the other hand, if they start leaving the country in any numbers, we are worried about the employment and other consequences. It is exactly those two things I am going to talk about.

First, I am going to ask, what happens to direct investment--that is, the investment by multinational companies--if we reduce our tariffs and standardize some of the nontariff barriers, as proposed in the free trade agreement? The second question is, what happens to the government's capacity to regulate foreign-owned firms if we have a free trade agreement?

On the first question, what happens to all the foreign direct investment in Canada if we lower tariffs and so on, there is a view about that there will be a very large divestment of the existing foreign firms in Canada and that it will be much harder to attract investment into Canada because we will not have the tariffs, etc., to stop the imports. Since they can export to Canada, why bother locating in Canada? That view is expressed fairly strongly, for instance, in a paper by Dr. Baranson for the government of Ontario a couple of years ago.

First of all, I agree with the view in the sense that there is some industry in Ontario and in Canada that has been attracted here, in part at least, by the existence of tariffs and nontariff barriers in recent years. So

I think there are going to be some areas where the firms will think through whether they want to remain and produce in Canada as distinct from exporting to Canada. I will be glad to speak at more length on that particular problem in a moment.

But I want to say, and my main point is, that I think that is a very small part of the total picture, and my reasons are the following: First, the way in which multinational companies make investment decisions has been studied very extensively and empirically. They look at markets and the growth of markets. They look at the various factors that influence their costs--labour costs, raw material costs and so on. They look at a whole range of government policies and the kind of environment in which they are going to be living. And yes, they also look at the tariffs, but that is very much, in all the studies I have seen, a secondary factor and it has become more and more secondary as tariffs all around the world have come down. The average Canadian tariff on dutiable imports is only about eight per cent now. In the United States it is about four per cent.

So consistent with what we know about how multinationals make investment decisions, the tariff is a relatively small part of that compared with the market and cost factors.

Secondly, those market and cost factors change because of free trade, and they change in ways which are very favourable to Canada. First of all, the market is enlarged for Canada quite substantially. Secondly, many of our costs are reduced. They are reduced because we are importing equipment, for instance, which bears a tariff, and now we will import it without the tariff.

The response of firms is the most important factor. The response of firms, especially the higher-cost ones, especially the ones that produce a wide product line and have very short runs and high unit costs, is to specialize, to drop some lines and extend the others in order to take advantage of the larger market. That process is very largely within the firm and within the industry. We have seen that happen in the European free trade area, the European Community, the Australia-New Zealand close economic arrangement, the British-Irish free trade area before they went into the common market and so on.

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The changes that happen are within the firm and within the industry: this specialization for export and then dropping some import lines. That is very important because if it happened between industries, there would be a lot of adjustment, a lot of labour adjustment and a lot of capital adjustment. But as far as we can make out, between 65 per cent and 70 per cent of it happens within the firm and within the industry. This intrafirm trade, this intra-industry trade is the larger part of world trade. It is the most rapidly growing kind of trade.

My third reason for doubting this exodus that Baranson and others talk about is the competitive process. If you take away tariffs and other barriers, firms are not then free simply to walk into one another's markets, because there are other firms sitting there and they are going to resist that.

So you have a choice: You can try to export into that other country market, fight for your share of the market and be fought; or you can say, "I will put a plant in that market by takeover," because if I take over a plant, I have not changed market shares. If I take over a plant that has 20 per cent

of the market, it still has only 20 per cent of the market. The reactions from the others are not as strong as if I put in a new plant or I export and try to take an additional 20 per cent of the market. Then everybody has to move over and they are going to fight me. I can license my products. I can joint venture with an existing firm. I can have a management contract. There are all sorts of things I can do which increase investment.

So my prediction is that what you are going to see with free trade with the United States, if we get it, is a big increase in direct investment both ways: in Canada because of the rationalization of production that is going to go on, and both ways because of the fact that exports and direct investment are mostly complements, they are not substitutes, except in a small number of cases.

You may say, can I go beyond the theoretical part and show this empirically, and the answer is yes. We have had in Canada quite a few studies on this. The best is probably that by two economists called Baldwin and Gorecki at Queen's University, four volumes. This is a total count; this is not a sample. They got into Statistics Canada and got the whole database. They studied what happened to firms in Canada as tariffs came down through the 1970s and early 1980s. Remember that the decline in tariffs under the Kennedy Round and the Tokyo Round is as big as what is predicted under this free trade agreement. The average value of tariffs on imports three decades ago was about 40 per cent. It is now only eight per cent.

So we have already been through this adjustment on a fairly major scale, and what I have suggested happens is in fact what happened. The Canadian-owned firms and the foreign-owned firms in Canada both dropped some product lines and took the others into volume production for the export market. They both did that, in the main, about 70 per cent of the time, and 30 per cent of the time they sold out some plants and moved into other industries. That is the part that is a problem.

As a second point--and I will make this more briefly, Mr. Chairman--what did we do with this agreement? The first point I have made is that I think there is going to be a lot more foreign direct investment between the two countries. What does the agreement say about the ways in which we can regulate foreign direct investment? As you know, the agreement says there will be national treatment for each other's investors. National treatment means that, with some exceptions, foreign-controlled firms are treated no less favourably than domestically controlled firms.

Now, that concept is very important. It is the opposite of harmonization or reciprocity. In harmonization or reciprocity you have to have the same regulations in the two countries. In national treatment, you have your own set of regulations that the foreign firm, once it is established, gets the same treatment. That is why I think national treatment, which dominates this agreement, is critical. It allows us to keep our laws, our regulations, our policies, so long as the foreign firms that are established here are treated in the same way as the Canadian firms.

Second, however, any existing differential treatment of the foreign-controlled firms is grandparented. "Grandfathered" is the term they use. I am uncomfortable with that; it is grandparented. It is made an exception. So all our existing laws in Canada and the United States that differentiate between foreign-controlled and domestic firms, and both countries have a long list of laws on that, are exempted.

Third, as far as Investment Canada is concerned, our review mechanism, the limit, which was \$5 million--we could review acquisitions of \$5 million or more--is going to be raised to \$150 million. We can review acquisitions of \$150 million or more. The Americans, of course, are not in a position to make a concession there because they do not have a review mechanism. What they have agreed to do is that if they ever put in a review mechanism, it does not apply to us. My guess is that the chances of the Americans putting in a review mechanism are fairly high.

The Vice-Chairman: Sorry; did you say very high?

Dr. Safarian: High.

Then there are changes in the financial sector, specifically the 25 per cent limit on foreign firms owning a bank. That has gone. But the 10 per cent limit on any single investor, foreign or Canadian, holding a bank stays. We have lifted the one ceiling, 25 per cent for all foreign investors. That has gone, but there is a 10 per cent limit on any investor regardless of nationality. As you know, the 16 per cent limit on assets of foreign banks has been lifted also.

There are two questions. How does this affect what we are doing now to regulate foreign investment? The short answer is virtually not at all. We do not review new investments. Investment Canada has approved all of the 2,000 acquisitions that have been made. Furthermore, the Foreign Investment Review Agency, in its last two years, approved all acquisitions that were made.

The two areas where we have been very active are in protecting the cultural industries and in protecting petroleum and gas where we are trying to increase Canadian ownership. There, the agreement says quite specifically that the old rules are in effect. In other words, if there is an acquisition of a Canadian petroleum company, the rule is \$5 million, not \$150 million.

I would say that in terms of what we have been doing, the agreement changes very little. The issue is if we change our minds in the future and some time later, for whatever set of reasons, we say we want to regulate more firmly, what happens then? Are we bound by the agreement? The answer is yes, we are bound by the agreement. We cannot review new establishments and we cannot review acquisitions under \$150 million. We must give national treatment, equal treatment for any new things, not what we are already doing, but for any new sectors.

How big a concession is that? It is obviously a concession. It obviously reduces our power to regulate. I would point out that the firms that have \$150 million or more in assets, the 500 or so Canadian-owned firms in that category, control about two thirds of the assets. In effect, we are going to regulate two thirds of the assets for the 500 or so firms with \$150 million or more, but not the remaining medium and smaller firms that control about one third of the assets.

I point out that we can use across-the-board policies, taxes, expenditures, regulations, which fall equally on foreign and domestically owned firms, of course. That respects the treaty. We can do anything we want that affects investment so long as we are careful about national treatment.

I point out that there is a clause, which has been little noticed, that says if it is justifiable, we can discriminate against foreign-owned firms. Somebody must have thrown that in and got a little worried about what we could

and could not do. It says so long as it is justifiable, because we are creating employment or doing something else, we can go back to discrimination between the two. That is going to be an interesting interpretation.

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Finally, we have the competition policy, which happily we revised in 1986, which allows the government of Canada to review mergers case by case with a test of efficiency and exports and other aspects of Canadian welfare, competition and so on. There is a very powerful instrument there that was just put in place in 1986. While we had the right to review mergers in the Competition Act before 1986, the power was so weak that the government of Canada never won a case, never in its history. The new merger provisions are very powerful and they are to some extent a substitute for FIRA and Investment Canada. The Americans did not protest this because they do the same thing with their antitrust legislation, as do the British, the Germans and so on.

I would say that we have retained a fairly wide range of powers. We can have industrial policies directed to particular industries, for example. As long as we do not discriminate between the foreign-owned firms and the Canadian-owned firms in that industry, we can do a great deal. We are subject to American countervail if we subsidize excessively, but we are subject to that now. Since the two countries did not agree on a subsidies code, that is going to stay in effect.

The Vice-Chairman: Thank you for your presentation. I am sure it has prompted some questions from the committee. In that I do not have any as yet, I will ask a couple of questions, if I may. As to those 500 firms you mentioned that control two thirds of the assets, would you know the ratio of jobs?

Dr. Safarian: It would be a much smaller proportion of jobs because the smaller and medium-sized firms are much more labour intensive.

The Vice-Chairman: Could you hazard a guess?

Dr. Safarian: I do not have a figure.

The Vice-Chairman: Let me ask you to address a question that I have some sympathy with. I think the estimate that is going around is that of the 5,000 corporations in Canada, 4,500, albeit they only control one third of the assets and most of the jobs, could conceivably and hypothetically be taken over by US interests without review. I think that is fairly safe to say. Having said that, it has been argued that in so doing, not only do you lose control to some degree of a large proportion of the firms that control most of your jobs, but also that to some degree you lose a significant, if not a major portion of your economic control. One could argue that if you lose economic control, indeed you lose all control. I wonder if you could react to that.

Dr. Safarian: Your statistics are correct. The vast majority of firms that are small or medium-sized have no investment review at the moment. They have a competition review, which is different. The cutoff point there is \$35 million, by the way, as distinct from \$150 million. It cuts into many more firms but it still does not protect the smallest firms that are exposed to takeover.

You had better put that in the context, I think, of a world that has changed a great deal over the last 20 years. I have given some figures here on

what has happened to Canada as a country that attracts foreign investment, whether new or by acquisition. Basically what has happened is that 20 years ago we were getting 10 per cent of all the direct investment in the world. We are now getting closer to two per cent. Twenty years ago, our multinationals were supplying about two per cent of the world's direct investment. We are now supplying about 10 per cent. The figures have exactly switched around.

People are going elsewhere. They are going to the United States, southeast Asia and so on and our Canadian firms are going to the United States in very large numbers. We are the third largest investor in the United States. We are the sixth largest direct investor in the world. This relatively small country is the sixth largest direct investor in the world. The problem has been that the whole world has been opening up to direct investment and competing for it and subsidizing it. We are in a sort of love period rather than a hate period. Countries like Australia and New Zealand that had review agencies have stripped them away and I could go through many others.

What I am saying is that you have a point, that we are now exposed to takeover by firms. Where we had a review before, we do not have that. We have some protection through the competition review, but that is all.

The Vice-Chairman: To finish off this question--some committee members may want to ask questions--could you respond please to the statement promoted by Broadbent and others vis-à-vis the relationship between investment and job creation? Statistics Canada--you probably read it, professor--said that from 1978 to 1984, for every \$1 billion in profit of an American corporation, it created 17 new jobs and for every \$1 billion in profit of a Canadian-owned corporation, it have created 5,700 jobs. I do not know whether you have seen that assertion made and I wondered whether you could react to it.

Dr. Safarian: You are referring to a presentation by John Orr, which went to a federal parliamentary committee and was published in the Globe and Mail. Would you please read the reply by the Chief Statistician of Canada, Fellegi, whose data were used by Orr?" Fellegi simply says, "'This man has misused the data and given a misleading account.'" Those are his words. Those statistics are phoney. I use the word very rarely, but they are phoney.

What has happened is that in the last 20 years or so, the new job creation has been in the smaller firms--that is true--and the new job creation has been in the service sector. The larger foreign-owned firms--the foreign-owned firms tend to be larger and in commodities--and the larger Canadian-owned firms had the same kind of performance.

Orr should have made the point that if you look at the larger foreign-owned firms, which they mostly are, and compare them with the larger Canadian-owned firms, they have got the same problem. They are both not creating new jobs. The new jobs are being created by the smaller firms. That has nothing to do with foreign ownership. It has to do with the fact that for both foreign-owned and domestically owned larger firms, the action has swung, for the time being, to smaller firms. It has to do with smallness.

Many of those foreign-owned firms that are large and Canadian-owned firms that are large are trying to downsize their operations. They are developing small profit centres within the large company and so on. I really think that is not something that deals with the foreign ownership issue. I have quoted as high an authority as I can, the people who produce the statistics. That was a very misleading account.

The Vice-Chairman: I had not read Orr's reply to it, but I shall.

Mr. Morin-Strom: I would like to ask about the change in the distribution of investment. You were suggesting that this agreement will lead to significant increases in foreign investment in Canada and presumably there is the opportunity for increased investment by Canadians in the United States. What is going to happen to the percentage of control of our economy held by foreign investors as opposed to Canadians?

Dr. Safarian: It is going to start going up in my view.

Mr. Morin-Strom: From where.

Dr. Safarian: Let me give you the figure, which is quoted in my statement here. In 1974, taking everything but agriculture and finance into account but including manufacturing, raw materials, merchandising, construction, the works, the most inclusive figure is that 36 per cent of the capital in that industrial sector was owned by foreigners. Today it is 26 per cent. It has fallen very steadily since 1974. Actually, it peaked in 1970, but I can only recall the 1974 figure. It was 36 per cent of the total and it has fallen to 26. Of course, in some sectors it is much higher than that but in others it is much lower.

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My prediction would be that with the free trade agreement, trade, direct investment, licensing, joint ventures and so on will grow together, and that will tend to raise the foreign control of Canadian industry in the early years, in that period of restructuring and so on.

My longer-term prediction, however, would be the opposite, that that will not go on beyond a certain point, because the higher incomes that come with free trade give you a savings base that is useful in financing your own investment. But second and more important, much of the foreign control has come in industries that remain relatively inefficient. They had too many product lines and at a certain point they could not develop further; they were high cost. The industries that come with free trade are much more efficient and they do not have to sell out to foreigners.

It has been a longstanding story in Canada that you develop these firms which, because they expand product lines horizontally, have high unit costs and at a certain point they cannot go anywhere, so they sell out to foreigners who can supply the headquarters functions that they badly need. Now we are not going to have as many of that kind of firm. We are going to have firms that are more specialized, expand in their own areas and, I think, are less subject to takeover.

So I make two predictions: One is that in the short term--and that could be five to 10 years--the foreign control ratios are going to go up. After that they will stabilize or maybe even come down. I cannot go beyond that.

Mr. Morin-Strom: How much?

Dr. Safarian: Several points. I do not think they will go back to 36 per cent, but they will go higher than 26 per cent. That is what I am saying.

Mr. Morin-Strom: In your statement you seem to be suggesting there is a significant encouragement of foreign investment.

Dr. Safarian: By the free trade agreement.

Mr. Morin-Strom: Yes.

Dr. Safarian: Yes. Both ways.

Mr. Morin-Strom: You cannot specify how much that might mean in terms of the whole.

Dr. Safarian: No. I do not know of anybody who has tried to make that estimate. We try to measure almost everything, but that is one I have not seen measured.

You may know that both at Queen's and at the University of Toronto, with the models of the economy there, they are trying to incorporate the revised final text and revise all the predictions of what will happen. That will be tested out, but it is going to be some weeks before all of that is available. I cannot at the moment tell you how much more there is going to be.

Mr. Morin-Strom: Over that period from 1974 to 1987 you say that the foreign ownership declined from 36 per cent to 26 per cent. During that period, when one looks at sales of goods within Canada, how much has the percentage of imports increased as a proportion of our economy? Has there been a corresponding increase in penetration by imports as a percentage of gross national product? Has that had a significant change over that period?

Dr. Safarian: Imports as a percentage of GNP are just about constant. I am sorry; I have got that wrong. Imports and exports as a percentage of GNP have both risen in about the same amount from the period of the early 1970s to the mid-1980s. That is, our import dependence went up and our export dependence went up by about the same amount, so we are more dependent on both. That was the point I was making: that with tariffs coming down, we have tended to increase both exports and imports, which is the process one would predict.

Mr. Morin-Strom: Of course, they have to stay in balance in the long run, and you confirm that imports have increased as a percentage of our GNP. What has that increase been?

Dr. Safarian: I am sorry, I do not have that figure here. It is very easily available.

Mr. Morin-Strom: I wonder if that roughly corresponds to the reduction in the ownership by foreign firms in Canada, if it has been replaced, in fact, by their importing goods here instead of producing them here.

Dr. Safarian: You have got to go back to the point I just made: that imports and exports have both gone up. It is the same firms--

Mr. Morin-Strom: But that is a very different point, and it gets at the matter of the two economies becoming more and more one economy instead of being two separate countries which have an opportunity to control their own destinies. Instead what may be happening is that as Canada gains in

penetration of the US and the US is gaining in the penetration of Canada, we are becoming less distinct.

Dr. Safarian: You are absolutely right. The process that has happened in the last 15 years is increased import and export penetration both ways. The figures are very clear. We are close to 80 per cent export dependence and import dependence on the United States, whereas 20 years ago we were 60 per cent and 40 years ago we were 40 per cent. That ratio has been rising very steadily.

I think you are trying to make another point, which is that if we have less foreign investment, as we have had from 36 per cent to 26 per cent in relative terms, has the ratio of imports gone up correspondingly? I say yes, it has, but the other side of the picture, and it is closely related, is that it is the same firm which, as tariffs are reduced, increases its imports but also increases its exports. The foreign-owned firms, the Canadian-owned firms have been doing the same thing.

We have not had an absolute divestment from Canada in the last 15 years. My figures of 36 per cent and 26 per cent are percentages of the total. The absolutes have gone up so much that the absolute stock of foreign capital in this country is much higher than it was in the early 1970s. It is just that the Canadian part has performed more strongly and taken a larger part of the percentage total.

I hope I have answered your question. I am not sure I have.

Mr. Morin-Strom: Yes, but there is a distinction between what has happened on the investment scene versus what is happening on the trade scene. If you look at the foreign firms and their impact on the economy, they may have increased the amount of investment they held; percentage-wise it has gone down. Meanwhile, the amount of penetration they have in terms of sales has gone up from importing goods into Canada, or exporting from the United States into Canada. So they have much more heavily gone into producing in the United States to sell in Canada than building up Canadian operations, buying Canadian operations or investing in Canadian operations to sell in Canada.

Dr. Safarian: I would be very careful of that point, because it is a point that you see commonly even in research studies, like the Macdonald research studies, which says something to the effect that the foreign-owned firms have a very high propensity to import, which is a related point. In fact, the point I am making is that a lot of the stuff that the foreign-owned firms buy is on account of Canadian-owned firms. They are wholesalers for the Canadian-owned firms. That has been demonstrated very carefully in a study by MacCharles.

My point is that the Canadian-owned firms are also doing the same thing as the foreign-owned firms. They are importing a higher percentage of their output in order to export a higher percentage of their output, and that is still the final point I would leave you with: that it is a two-way process as we get into this free trade agreement. Our imports as a percentage of gross national product are going to go up a lot; so are our exports as a percentage of GNP. That is the nature of the exercise when you go to free trade. That is what has happened in every free trade arrangement I know of. Imports and exports go up as a percentage of GNP. It does not matter whether the economy is foreign owned or domestically owned. The same thing happens.

Mr. Mackenzie: You would have a hard time selling that right now to

Firestone workers in my riding, where the company intends, as long as the market is there now, to ship them in, or most of the bias-ply tires. Indeed, the negotiations with Cooper broke down largely on the basis that Firestone simply did not want, even in the first argument that Cooper made, to be able to continue so they would have a cash flow producing those bias-ply tires to supply the market that was here. It was very obvious in the negotiations that Firestone did not want anything to do with that arrangement. You would have one hell of a job selling the 1,300 Firestone workers that the argument you just made really holds water.

Dr. Safarian: I was very careful to say that the process I am describing covers about 70 per cent of the picture. There is the 30 per cent where what you are describing happens. Firestone is one example, where Firestone is closing down a number of plants in Canada and the United States, two in Canada and about 10 in the United States--

Mr. Mackenzie: Their only productive one too, incidentally, in their entire chain.

Dr. Safarian: --and getting out of a certain kind of business and into another. That is a process that goes on and that is the other 30 per cent. The critical problem, I think, in any free trade agreement is what you do about that 30 per cent where people have to change jobs between industries, not within the firm or between two firms in the same industry, but go to a totally different kind of job in another part of the country or another industry.

Mr. Mackenzie: You see, even if I accepted your argument, the difficulty is that we can quantify not only the Firestones but many of the others. Even proponents of free trade before this committee have admitted the dislocation areas, and we know some of the industries.

Dr. Safarian: Yes.

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Mr. Mackenzie: It is much more difficult. It is a leap of faith, really, in trying to quantify where the actual hard gains are. As in any negotiations, if I am going to negotiate and I know I am going to lose something, I want to know what I am going to gain.

Dr. Safarian: I am sorry. That is not hard to quantify.

Mr. Mackenzie: Well, it has not been done in two years before this committee. I would love to have it. They tell us that is not the way to go, the winners and losers chart.

Dr. Safarian: If you want a chart of the industries that will increase their employment and the industries that will decrease their employment, there are several in the studies by the Economic Council of Canada alone, in great detail.

Mr. Mackenzie: I think we have been missing some of this a great deal, Mr. Chairman.

The Vice-Chairman: I agree with you.

Dr. Safarian: Mr. Chairman, I was wondering if that would arise. I

refer you--and this is the easiest--to Reaching Outward, which is the 24th annual review of the Economic Council of Canada, 1987, on pages 37 and 41. I will give you just page 41 as an example; there are several other pages I could refer to. Here are the projected cumulated employment changes resulting from Canada-US free trade, by industry, Canada 1987-1995, and it goes through a whole series of industries showing jobs created, jobs lost, separately, and net job gain. It is exactly what you are looking for.

Mr. Mackenzie: Oh, no. Hang on now.

The Vice-Chairman: Mr. Mackenzie, we will put you on the list. Thank you, professor. We will take a close look at that for the committee. Incidentally, that exact statistic there, if we want, our very capable researcher will get it for us, the imports and so forth.

Mr. Haggerty: Professor, on page 9 of your brief this morning you go on to say, "Many multinationals in third countries would hesitate to produce in Canada today for the combined Canada-United States market simply because export access to the United States market could be blocked." Could you expound on that?

Dr. Safarian: Right now, about 50 per cent of all the world's direct investment is headed for North America, mainly for the United States. When you take what all the investment countries are doing, their target 50 per cent of the time is North America, mainly the United States, and we are fighting for our share of that. Right now, because we have a relatively high unemployment rate and so on, we are fighting for our share. That has what the Investment Canada thing was, to be more welcoming towards foreign investment.

When you think of a Japanese firm that is trying to figure out whether to locate in Canada and the United States, it has to take into account raw material costs, labour costs, what government policies are and so on; it has to take into account a range of things. When it thinks of the market, which is the biggest thing it takes into account, the size and growth of market, it says: "Look, if I locate in Canada because the exchange rate is right, my labour costs are better or whatever"--we are much better than the United States in raw materials--"to exploit the Canada-US market, I am in danger of having my exports blocked, and then I have lost the big market. If I locate in the United States to exploit the Canada-US market, I am still in danger of having the Canadians block my export"--we do a lot of antidumping and things like that to stop that sort of thing--"but at least I would lose only the smaller market."

Now, in so far as we have got better access to the United States market--and I know it is not perfect under this agreement, but it is better than what we have--that issue becomes less of an issue. A Japanese firm which, let us say, had other reasons for coming here would locate here in order to take the US market from here. So the prediction I am making is that third-country investment, from Japan, West Germany, wherever, is more likely than in the past to come to Canada simply because it does not have that problem of potentially blocking the larger market.

Mr. Pelissero: Is that true in the auto pact and the auto industries after this trade agreement goes into place?

The Vice-Chairman: Could I ask the members of the committee who have a supplementary to ask the chair, please?

Mr. Pelissero: Sorry, Mr. Chairman.

The Vice-Chairman: I have been more than indulgent so far.

Dr. Safarian: That is a good point. The auto arrangements are very particular to that industry. I think after about 10 years, that could be a problem unless we are very competitive. Right now, we are very competitive. Right now, our costs are below the Americans, so they are locating here. As you know, General Motors has expanded far more here than in the United States and so on.

But after about 10 years, some of those safeguards begin to fade away and what I have just said may be less true in that industry than elsewhere, because then we mainly become dependent on the 50 per cent Canada-US content. We cannot give the drawbacks that we used to give. The drawbacks are gone after about 10 years.

Mr. Pelissero: Which is?

The Vice-Chairman: Is that a supplementary to the supplementary? Go ahead, Mr. Pelissero.

Mr. Pelissero: I do not want to lose the point in the sense that you make a statement in terms of attracting Japanese investment into North America so they have a gateway to the United States.

Dr. Safarian: That is right.

Mr. Pelissero: Ontario is concerned from an auto pact perspective and some of the benefits that we as a province have acquired because of the 60 per cent Canadian content. I have to look at the tail end of your statement that it may be a serious consideration 10 years down the road, from an Ontario perspective in the sense that the same kind of process--there are no longer any barriers. If from an environmental, health, welfare and worker safety perspective, the United States may be a lot easier, I am not going to come to Canada, I am going straight to the States.

Dr. Safarian: I stand by my statement in reply to Mr. Haggerty for industry generally, for the obvious reason that we have something we did not have before. We have more access to the US market.

The auto pact, as you know, is a managed free trade arrangement, very closely managed on our side in particular. I do not know anybody who can predict what the changes in that industry are going to be as we move into it. The drawbacks are gone. The duty remissions are gone. The instruments we used to attract the Japanese and other firms to Canada, which incidentally a number of the American states were also using, have gone.

What has been put in its place is that in a sense the auto pact has been merged with the free trade agreement and with the general 50 per cent North American content.

Mr. Haggerty: That was not on the table though, was it?

Dr. Safarian: Whoever mentioned that did not know what he was talking about. The auto pact was either going to be challenged by a countervail on those drawbacks and duty remissions that we were giving the Japanese and others--as you know, seven governors were lined up ready to ask

for that, and in the American system, all you have to do is ask for it and it goes into proceedings--or it got merged into the free trade agreement. So it got merged into the free trade agreement, but at a price, which was that we gave up those drawbacks and duty remissions, and we threw ourselves on the rule in the free trade agreement which is a 50 per cent North American content, which means the United States and Canada.

The reason I say we have about 10 years is that those duty remissions and so on, some of them go on for a while because they were promised. Second, we do have a 60 per cent Canadian content safeguard in the letters that the government of Canada exchanged with the Big Three at the time of the auto pact. That is still there. We cannot monitor that with tariffs because tariffs are coming down. That was our monitoring point, to say, "If you do not obey these letters, we will smack you with this."

Mr. Pelissero: So they have not gutted the auto pact.

Dr. Safarian: We have another safeguard that we can use for a while, which is that if they meet the two conditions in the safeguards, the letters, they do not have to pay duty on overseas imports. Those overseas imports are about \$3 billion, the duty is about \$300 million. So if they started violating the 60 per cent Canadian content, they would lose the \$300-million duty that they now get free.

Mr. Haggerty: Just to follow on your answers and your scenario, one could say from your comments that through free trade with the United States, the United States can control the investments here in Canada by that treaty. Say one of the multinational corporations wanted to move from Taiwan to Ontario or to Canada, the United States could say, "No, you cannot invest." They control the shots.

Dr. Safarian: There is nothing to stop a firm from investing in Canada. We cannot give them drawbacks to export to the United States as a condition of that investment.

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Mr. Haggerty: No, but you used the word "block." It could be blocked because either one of the partners may say, "No." So they will say, "We will head for the largest market." As my colleague Mr. Pelissero has said, "We will go to the United States then and that will resolve it." So what it comes down to in this particular area, construction, you can see jobs lost in this area because foreign investment would prefer the United States because of the larger market. They cannot come in through the back door any more.

Dr. Safarian: I am sorry, I do not follow that. There is no reason why a firm cannot locate in Canada and export to the United States. There is even more reason to do so because it need not feel that fear, as much as it had to up to now, of being blocked in exports to the United States and losing its investment. That applies in automobiles so long as they have a 50 per cent Canada-US content. I do not quite understand that point.

That is still the case. With a 50 per cent Canada-US content you can locate in either country and export to the other. So the question becomes are we or are we not a good place to locate for export to the other market?

Mr. Haggerty: Yes, but that was done for one reason because of the Japanese investment into the automobile sector into the United States where

they now will probably be producing more Japanese cars in the States now and bringing in their 50 per cent quota on parts. So there were concessions given there that shortchanged the North American auto pact, and there will be jobs lost by it. There is no doubt about it.

Dr. Safarian: It is perfectly true that we cannot give drawbacks to the Japanese to persuade them to come into Canada and eventually export to the United States on the basis of what is effectively a subsidy. We do not tax them on all the things they bring into Canada.

What you are saying to me is that the United States will not countervail that. I am saying to you that seven governors of auto producing states apply--

Mr. Haggerty: I understand that. Michigan is one of them.

Dr. Safarian: When that would have come, I do not know. It might not have come for some years. But that is a subsidy to an export. As you know, the American system simply goes into gear when any industry asks for an investigation. It automatically goes into gear. I cannot predict whether it would have brought countervail. I am saying that apparently the negotiators thought that was something that was going to happen so you might as well try to keep the rest of it.

Mr. Haggerty: On that same page, it is down below--

The Vice-Chairman: This is your final question, Mr. Haggerty.

Mr. Haggerty: What happens if the analysis is wrong and there is a massive divestment of capital from Canada because of free trade? I think you have a question mark there, too, when you talk about the Canadian dollar which would fall.

They are forecasting in the States right now, within maybe the next year, that the dollar will drop between five and seven per cent more.

Dr. Safarian: The United States dollar?

Mr. Haggerty: That is right, the United States dollar. One of the difficulties that has cropped up in the United States is because of the huge deficit. They are going to have a problem with the Korea, Hong Kong, Singapore and Taiwan. It indicates there are special problems there. Its currency is linked to ours.

The Vice-Chairman: Are you leading to a question?

Mr. Haggerty: The falling dollar does not curb the flood of cheap imports from these newly industrialized competitors. The trade deficit is about \$40 billion. All I am trying to say is that in behind this trade deal with the United States is that there are some people thinking in the United States that for this trade deal to work for benefit the United States is that the Canadian dollar would have to be on par with the United States. There are indications within the Pacific Rim that this is taking place, and they will use that as a part of their trade negotiations as we get into this further, and in detail.

Once it goes that way, and it seems to be heading that way now, is what

advantages are there for Canada? Can we be competitive in this area if they are going to control our currency too.

Dr. Safarian: But they are not going to control it.

Mr. Haggerty: But you do not know that.

Dr. Safarian: I know that.

Mr. Haggerty: Nobody knows that.

The Vice-Chairman: Mr. Haggerty, just a moment.

Dr. Safarian: Let me deal with these in sequence. My comments here, whatever the exchange rate for the US dollar is, pick any exchange rate you want, you made a forecast just now,--

Mr. Haggerty: I did not, I am taking it from--

Dr. Safarian: All right, they made a forecast, whatever it is, I do not care, if there is a huge divestment from Canada, if I am wrong in what I am predicting, and I have to ask that question as you know, if I am wrong and there is a huge divestment from Canada, a big outflow, I am saying the Canadian dollar goes down further. Whatever the level of the currency is, let us say it is 75 cents US for \$1 Canadian or 70 cents US for \$1 Canadian, whatever you want, the Canadian dollar is going to go down from there if there is a big divestment of capital, and that will obviously help us. So there is a safety valve in there.

If you are asking what is going to happen to the US dollar in the future because of this agreement, I do not know. The Secretary of the Treasury, Mr. Baker, for a while was making noises that we had to fix the US and Canada dollar rate. He gave all that up. There is no mention in the exchange rate anywhere in this free trade agreement.

Is the United States some day going to put in an exchange control, which is what a managed dollar means? They might. It is interesting. They could not use that against us in the way they could use it against the Japanese and Germans. They could not use an exchange control system to discriminate against imports from Canada. They would have to apply this very evenly. We also cannot, on our hand.

Mr. Morin-Strom: I find it fascinating that economists, when they are in favour of a subject come to the conclusion that even when things go bad, and the forecasts are wrong, there is always a self-correcting mechanism in the marketplace, such as the exchange rate, which will result in things turning out all right anyway, and you have a positive result of the whole thing. But when they are against something we never hear about this self-correcting mechanism and how things are going to turn out OK on the other side of the coin.

Dr. Safarian: You are right up to a point. This is called general equilibrium analysis. What it means is--

The Vice-Chairman: In politics we call it covering your rear end.

Dr. Safarian: Just a moment. Instead of wearing blinkers and seeing narrowly down one road you ask what is on either side. My comment here is not

that the fall of the exchange rate will completely wipe out the effects of the divestment, it is that it happens and it partially compensates for that.

I believe very strongly in this principle. One thing I do know is that if you make a straight line projection of any kind, for any length of time, you are wrong in economics.

The Organization of Petroleum Exporting Countries was going to keep the price of oil going up, and we based a whole national energy program on the idea that the price of oil today would be \$80. The whole program failed because of that bad forecast. I can take you through any issue you want to bring up that if you make a straight line projection long enough you are going to be wrong because any straight line projection in economics brings in counterforces. That is the nature of the economic system. So I accept your criticism.

Mr. Morin-Strom: I would like to focus on another forecast you made in your statement. I am from northern Ontario, and I am particularly interested in the resource sector. You made some reference in here to it.

You said: "If we turn from manufacturing to natural resources, free trade is likely to lead to an increased investment in Canada by both foreign and Canadian multinationals. Most studies show that Canada already has a comparative advantage in a number of primary manufacturing industries...." You say, "The removal of even small barriers to exports...could significantly increase investments to process such products further...."

I do not understand where you could possibly be getting that from when we have a situation where there is essentially free trade in resources now. It is hard to imagine that we have a better access than we have had in the years leading up to perhaps the last couple of years where we started to have some attacks on some of our resource sectors. But, for the most part, the Americans need our resources. We have far in excess of internal domestic requirements in terms of the amount of forests, the mineral resource in our economy. We are not the ones that need those resources. It is the Americans who want them, and they always wanted complete access to them. They have never historically suggested cutting their own throats by cutting off their access to our resources.

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Dr. Safarian: Let me refresh you on some history. When we began developing petroleum and natural gas in western Canada, all through the 1950s and 1960s the Americans blocked access to that resource. They were trying to build up their own reserves; they did not want to be dependent on imports; they blocked access. You will remember we had a commission called the Borden commission, the main point of which was to try to get access for Alberta natural resources, petroleum and gas, into the United States market.

What the Americans were doing was setting up tariffs at Bellingham just across the border in Washington in order that all the refinery capacity, all the processing, be located there. So we took the raw material down there just across the border. There was no economic reason for it whatsoever. We built a huge petrochemical industry there. Talk to the government of Alberta. It has invested very heavily in petrochemicals and cannot get those processed materials, processed petroleum and gas, very far into the United States,

partly for transport reasons and partly because there are relatively low tariffs that block some of that material.

Even relatively small tariffs will prohibit upgrading a lot of the resources we export, because they are bulk volume sorts of things and transport and tariffs interfere a lot with those. That is the point I am making. Historically, the Americans have always taken their tariff up as the degree of processing went up, and I have given you an example.

Mr. Morin-Strom: You have given me an answer in the energy sector. I want to talk about the natural resources sector primarily, which is more of Ontario's interest. We could get into a huge debate on the control of the energy sector if we want to and whether it is in our interest to be able to maintain our control of that sector or not.

I am concerned in northern Ontario about getting jobs and further processing of our minerals and forest products. Historically, we have not done that. In effect, we have had to impose restrictions on exports of logs, for example, to ensure we get something out of our forest resources. We have a limited amount of forest resources and my understanding is there is very little in terms of sustainable forest resource in addition to what is now being taken out of northern Ontario. So the opportunity to export more in raw materials is limited.

Governments have had the right to put incentives in place, to require local sourcing to put restrictions on exports of raw materials, in order to encourage that secondary manufacturing and processing to occur. It seems to me what we are doing here is restricting our ability to do that in the future, and there is no evidence that the private sector finds it worth while to do the processing in northern Ontario.

Dr. Safarian: The processing may not be in northern Ontario; it may be in southern Ontario or somewhere else in Canada. All I am saying is that the Americans now have, under their fair trade laws and so on, the right to impose tariffs, the right to impose nontariff barriers, to increase tariffs, to increase nontariff barriers. That right is now constrained. That is an important factor in our upgrading the province.

Abitibi not so long ago wanted to put a plant on the north shore to export to the United States. There was not even a tariff on the product, but the American side threatened a tariff and they put it on the south side. That sort of thing happens all the time: you do not need to have a tariff there, but if there is a threat of a tariff or a threat of some sort of nontariff barrier or an interpretation of how you subsidize and so on, they get you that way. The fact that there is no tariff does not mean they may not operate through some of these other nontariff barriers. To a certain extent we have constrained that and to a certain extent I think we have increased the possibility of processing resources where, as you point out, we have an advantage over the Americans.

The Vice-Chairman: I want to thank you very much on behalf of the committee for taking time out of your schedule and presenting a very thought-provoking presentation. I anticipate some further reactions coming out of your presentation. One is that we will be getting copies of those reports and other figures. Again, on behalf of the committee, thank you.

The next presentation is from the Association of Canadian Publishers. The president of the association, Rob Sanders, unfortunately is not present

today. However, we have Harald Bohne, who is the past president of the association. Mr. Bohne, I believe, is accompanied by Hamish Cameron, who is the executive director of the Association of Canadian Publishers.

The normal procedure is a presentation. If you have copies for the committee, wonderful. If not, we will listen and subsequently, if at all possible, we would like to address some questions. I am sure there probably will be some.

Mr. Cameron: Would you like the brief at the beginning or at the conclusion?

The Vice-Chairman: If you have it at the beginning, it is usually dispensed in that manner. You can give it to our clerk.

Mr. Cameron: How many are necessary?

The Vice-Chairman: How many do you have?

Mr. Cameron: We have eight or 10.

The Vice-Chairman: That is how many are necessary. My colleagues on the far right can perhaps share a copy, and we will get some extras made.

Mr. Beer: As long as there is no pejorative construction.

The Vice-Chairman: Absolutely not.

ASSOCIATION OF CANADIAN PUBLISHERS

Mr. Bohne: The Association of Canadian Publishers represents 130 member firms, all Canadian owned. About 50 per cent of these firms are located in Ontario. The association has taken a stand particularly on cultural industries in its lobbying efforts to the federal government in connection with the free trade talks. We have not taken a stand basically on the pros and cons of the agreement, but have limited ourselves to protecting the interests of the writers and publishers of this country.

Our lobbying efforts to keep culture off the bargaining table, on the face of it, seem to have been successful, because the agreement which was signed by President Reagan and Prime Minister Mulroney certainly makes specific the exclusion of cultural policies from the agreement. However, aside from the fact that we are concerned about the lack of background in the agreement and the lack of debate in total that has been allowed to happen, we continue to be concerned about the wording of the articles which refer to cultural industries, specifically, article 2005, in which the wording reads "Notwithstanding any other provisions of this agreement, a party may take measures of equivalent commercial effect in response to actions that would have been inconsistent with this agreement but for paragraph 1."

Our brief raises a number of questions concerned with this particular article of the agreement. The main point for us is the phrase "notwithstanding any other provisions." Could this paragraph leave the door open for any reprisals that might be taken by the Americans against current assistance programs, without which, quite frankly, Canadian publishing could not exist because of the market conditions we face and the fact that for every Canadian book sold in this country three American books are sold?

The other phrase that has us concerned is the phrase which introduces the idea of divestiture of business interests in the publishing industry. Under the so-called Baie Comeau policy which the then Minister of Communications, Marcel Masse, announced on behalf of the government, any publishing company which changes hands either in Canada or outside of Canada is automatically reviewed by Investment Canada and must divest itself of 51 per cent of its shares to Canadian owners.

You may remember that the first time this was applied, although totally voluntarily, was in the case of Doubleday Canada Ltd., which was taken over by a German firm. Under this process, 51 per cent of the holdings in the Canadian company went to Anna Porter and her associates so that 51 per cent of Doubleday Canada is now owned by Canadians. There are several cases outstanding before Investment Canada which have not been dealt with. In fact, the government has not applied this particular rule by forcing the issue with those companies that are under review.

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What concerns us about the wording in the agreement, particularly article 1607, is that the fourth paragraph of the article starts with the words, "In the event that Canada requires the divestiture of a business enterprise located in Canada in a cultural industry." The words "in the event that" imply that it is not government policy to enforce this so-called Baie Comeau policy announced by the Prime Minister. It leaves the door open to a selective approach to the policy regarding divestiture of business enterprises located in Canada if ownership changes in the United States, Britain or in Canada itself.

There are other questions open to interpretation here in that particular wording, because it implies that the government of Canada will actually take a hand in this transfer of ownership. We raise specific questions about this in our brief because we are concerned about due process in that connection and the fact of whether some of these companies may be, in fact, desirable investments or whether the government should really enter into the private sector market in the publishing industry.

These are our basic concerns. We have been assured by the federal government, by officials in the Department of Communications, that we had been listened to and that what we had always asked for, together with the other cultural industry groups--that culture would not be negotiated away in these free trade talks--is the policy of the government. Yet the language in the agreement itself and the lack of detail still give us considerable concern. Thank you.

Mr. Chairman: Thank you, Mr. Bohne, for your concise presentation.

Mr. Morin-Strom: I am rather surprised at how weak your presentation is. I would have thought that, with your involvement and presumed concern for the cultural industries, you would be taking a much stronger position in opposition to this agreement in two respects. First of all, this "notwithstanding" clause essentially eliminates the whole exemption. By my reading of it, it means that any action the Canadian government takes--potentially, not only action it would take in the future, but actions that it currently has in place--can result in tit-for-tat retaliation by the American government against any part of our economy. We have no idea where that retaliation may occur but they are essentially given the consent of the Canadian government to take a dollar-for-dollar retaliation against some other

portion of our economy for any encouragement that we have in the cultural sphere.

The second issue that I am surprised you have not commented on is the issue of sovereignty and opportunity for us, as a nation, to maintain our own distinctiveness in terms of so many other areas of not only the economy, but also the social and political sphere as implied by the broad, comprehensive scope of the agreement as a whole. You have not commented on that issue whatsoever. I wonder if you could react to my perspective on the weakness of your presentation relative to what I would expect we will be hearing from other cultural groups.

Mr. Bohne: As I said at the outset, the presentation we are making limits itself to publishing. We have not gone into the basic principles of sovereignty, which are implied by the wording of the agreement in other areas. As an association, we really have chosen not to comment on this generally.

On the other question, what concerns us about the wording in the agreement is what freedom there is for the government of Canada to introduce new policies. There is the position of the status quo in support programs through the various arts councils. The Ontario Arts Council, as far as provincial councils are concerned, is way ahead of other councils, but also the Canada Council and the Social Sciences and Humanities Research Council of Canada have policies in place and we have been assured that the status quo of these programs is protected.

Our whole emphasis in our negotiations with the federal government has been on the exclusion of cultural industries from the agreement, and that has been the main line of attack for most of the other groups, the Canadian Conference of the Arts, for instance, and other groups representing the other cultural industries. Beyond that, each association has taken its own stand to speak in favour of or against--generally against--the free trade agreement in principle.

Mr. Beer: I suppose your association, like a number of others in this area, had a certain dilemma. I am aware that on one hand the exclusion that was felt to be there for cultural industries was seen as a good thing, but as one reads the text, there are parts of it that are quite worrisome or potentially worrisome in terms of what that might mean in a kind of through-the-back-door way of dealing with cultural industries. I think we have seen that in testimony in some other areas, where one thinks something is excluded but there are other parts of the agreement where perhaps that could be dealt with. The issue of day care came up in another presentation with respect to a company which was providing that as a service, even though the specific area was supposedly excluded.

Given the way the agreement is right now, and if it were to go ahead, what kind of discussions are you having now with the federal government in terms of these concerns you have set out? Are they essentially saying: "Look, don't worry; that won't apply to you"? Have you got some legal opinions which are saying there is a real and present danger that some of those could seriously affect a number of programs, including provincial programs that assist Canadian publishing? I would like to be clear on how real and immediate this threat would seem to be. It seems to me the questions you raise are very valid and legitimate, and if the answers are just sort of "Don't worry," I would then worry about them.

Mr. Cameron: Our brief is based in part on a legal opinion. Article

2005 on cultural industries is a very sweeping exemption for the cultural industries. I do not think there are contradictions elsewhere in the agreement. I think the nature of article 2005 overrides any other interpretation of any other part of the agreement.

What bothers us about article 2005 is that it is very open-ended and there is not very much language in that article. We may very well decide that the agreement is against the interests of cultural industries if the actions of the government go against the spirit of the article. But as I say, the article itself does not give much clarification in the areas we have raised.

This relates to the previous question about reprisals. The status quo has been maintained in the exemption. The United States is free to take reprisals against Canadian assistance programs right now, if it wants to.

Mr. Beer: They would still be free to do so.

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Mr. Cameron: Yes, basically. Also, the language of the article goes both ways. We are free to take reprisals against assistance programs in the United States, if they ever exist.

Mr. Beer: Just because I want to be clear on that point, your sense would be that if the cultural industries are excluded from the agreement, essentially the field as it now is would remain, so that whatever you have been able to do or they have been able to do just continues. The new ringer perhaps is that you would really like to get some specific answers to the questions you have raised here to ensure that is the case.

Mr. Cameron: Yes, and unless the government puts in writing as a matter of policy its interpretation of the agreement, or if in the course of actions which might take place over the next year or so it creates some kind of precedent for its interpretation, then we would have a clearer idea of what the article means.

The only significant change with respect to the cultural industries that results from this agreement is in article 1607. That is the one where the Canadian government promises to buy at fair, open market value companies in which it is also requiring divestiture. That is completely new. We have never heard anything about that. As far as I know, it is not based on Department of Communications policy. This seems to be something that was introduced by the negotiators themselves, so we are very interested to know how the government itself interprets its new policy in this regard. One of the questions we raise in our brief is that--I think we imply here that we do not want the federal government owning publishing companies, but if it wants to provide loan guarantees for the purchase of these companies by Canadians, then that would be a very positive thing.

Mr. Beer: Have you had any discussions with the federal minister around these particular issues, as an association?

Mr. Cameron: No, but such discussions are planned in the near future.

Mr. Beer: Thank you.

The Vice-Chairman: Are there any other questions of the delegation?

Mr. Sterling: I would just like to thank you for your brief. You have looked at, I think, the trade agreement in good faith and have accepted it in good faith. I think there are a lot of people who are concerned about wording and how different sections are going to play out, but I do not think there is much we can do at this stage of the game in terms of those concerns, other than to see how it does play out when it does work out over the next couple of years.

That seems to be a stance that a lot of groups are taking, and I think they overplay the fear part of it rather than looking to it as a very complicated and complex document dealing with a lot of different issues. It is going to be difficult to see how it does all play out.

I am happy too that in some ways you were successful in having the negotiations turned around in some degree to meet your concerns. I think it showed that the consultative process did work to some degree before.

Mr. Cameron: The only thing I would add to that is I think we would like see clarification a lot sooner than the next couple of years. Maybe the next couple of months would be more appropriate.

Mr. Sterling: I think everybody would like that too, but I do not know if it is possible when you are dealing with so many issues at the same time. Thank you.

The Vice-Chairman: If there are no other questions of the delegation, Mr. Bohne and Mr. Cameron, on behalf of the committee, thank you for making the presentation here today. It was indeed welcome.

I have a couple of announcements, if I may, for the committee. First, this afternoon's session at four o'clock with the Ministry of Housing has been cancelled. We will try to reschedule that one. Tomorrow, Bob White will not be appearing before the committee, so there is no need to meet tomorrow, gentlemen.

Mr. Pelissero: Is he going to be rescheduled?

The Vice-Chairman: We will definitely try to reschedule him; however, Mr. Carrozza has indicated to me that, unfortunate as it is, there was no other specific reason given for either cancellation, the Ministry of Housing or Mr. White.

Mr. Pelissero: Do we stand adjourned until two o'clock?

The Vice-Chairman: Before we do that, there has been some query as to who was taking pictures in the committee. I just point out to the committee members that the lady today was from the studio. We have had previously a photographer from the Toronto Star and the one yesterday, I am told, accompanied Mr. Conrad and his presentation, finally.

Again, before we adjourn, may I point out to the committee that the committee commences at two o'clock. While we do have a cancellation at four o'clock, I suspect we will have some interesting questions, so punctuality would be appreciated by the chair.

The committee recessed at 11:25 a.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

THURSDAY, JANUARY 28, 1988

Afternoon Sitting

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Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitution:

Beer, Charles (York North L) for Mr. B. J. Nixon

Clerk: Carrozza, Franco

Staff:

Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From the Business Council on National Issues:

d'Aquino, Thomas P., President and Chief Executive Officer

Powis, Alfred, Chairman, Task Force on International Economy and Trade;

Chairman and Chief Executive Officer, Noranda Inc.

Newall, J. Edward, Chairman, President and Chief Executive Officer, Dupont
Canada Inc.

Rutley, Todd, Associate

From the Canadian Bankers' Association:

MacIntosh, Dr. R. M., President

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, January 28, 1988

The committee resumed at 2:04 p.m. in room 228.

TRADE WITH UNITED STATES
(continued)

The Vice-Chairman: I see a quorum, ladies and gentlemen. First, let me welcome Thomas d'Aquino, president of the Business Council on National Issues. Welcome to you and your delegation, Mr. d'Aquino. Without further ado, I will ask you to introduce the people with you and go into your presentation.

BUSINESS COUNCIL ON NATIONAL ISSUES

Mr. d'Aquino: Mr. Ferraro, ladies and gentlemen, we are delighted to be here. First of all, let me introduce the man on my right, Ted Newall, who is the chairman, president and chief executive officer of Du Pont Canada Inc., on my left, Alfred Powis, who is the chairman and chief executive of Noranda Inc. and, to my far left, Todd Rutley, who is an associate with the business council staff.

We are delighted to have this opportunity to share our views with you. I think you know a little bit about the council itself. It is made up of 150 chief executive officers of leading Canadian companies, 98 of which, incidentally, happen to be situated in Ontario. A very substantial number of our members are represented on the council. We are here to share with you our views on the Canada-United States trade initiative.

Incidentally, it is a subject that we first started talking about on the council in 1982. You will see in the brief we have given you that as early as 1983 we set down six points that we felt could be served by some form of trade liberalization agreement with the United States. Needless to say, we feel that those six points have, to a large extent, been met.

Without further ado, I am going to ask Alfred Powis, who is the chairman of the business council's task force on the international economy and trade, to present a very short statement. Then we are entirely in your hands.

Mr. Powis: Based on a careful assessment of the legal text of the Canada-US free trade agreement, the Business Council on National Issues has concluded that the agreement is sound and in the national interest. The agreement represents a major advance in bilateral co-operation. It brings to the world's largest two-way trading relationship improved procedures for avoiding and resolving disputes. It confers concrete economic benefits on both Canadians and Americans and it establishes a sound foundation, consistent with international law, for future progress on the basis of rational and balanced negotiation.

The 150 chief executives who make up the membership of the business council--and, as Mr. d'Aquino has said, 98 of them are headquartered in Ontario--represent the majority of the country's largest enterprises. Many of our members have already voiced their individual and sectoral support for the agreement. Many more will do so in the weeks and months ahead. Leaders from

the resource, manufacturing and service sectors share the view that the agreement will lead to better access to the United States market, expanded production and a more competitive and dynamic business climate for Canadians. These benefits will help to preserve and increase employment in all provinces.

We are pleased that the business council's support for the agreement is shared by organizations that represent the vast majority of small and medium-sized businesses in Ontario and across Canada. The testimony before this committee, the Kwinter panel and parliamentarians of the federal House of Commons by numerous employer groups and trade associations establishes beyond any reasonable doubt that the free trade agreement will provide new economic opportunities for Canadians in every region. The message to be drawn from this strong private sector support is that businesses are eager, willing and able to compete head on with their United States counterparts.

But let us be perfectly clear about one point in particular: The Canada-United States free trade agreement is not a panacea. It will not solve all our economic problems. It will not supplant the need for Canadians to develop their own economic strengths and to market their capabilities even more aggressively in the United States and abroad. It will, however, help to provide new markets to secure our prosperity and make us a more effective force in the global economy. These are the advantages that cannot be ignored.

Let us also remind ourselves that economic prosperity and economic interdependence go hand in hand. They are not the enemies of self-determination, social progress and cultural enrichment. History in fact tells us that an economically strong and outward-looking society is a society that can most effectively enhance its spirit of independence, its progressive social development and its cultural distinction.

Finally, we appeal to members of this committee and to your colleagues in the Legislature to put aside as best you can concerns of party and partisanship. Consider the free trade agreement as critically as you can but do so with all the objectivity you are able to muster. What is at stake here is much larger than the fortunes of one party or another. Jobs and economic growth are at stake. So is the potential of millions of Canadians engaged in productive enterprise and of millions of young Canadians yet to enter the labour market who depend on today's leaders to prepare this province and Canada for the economic challenges of the 21st century.

Thank you, Mr. Chairman. With that, we would be very pleased to respond to any questions or comments you may have.

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The Vice-Chairman: Thank you, Mr. Powis. Since I do not have anybody on the list yet, let me be so bold as to ask the first question, which you have probably been asked a thousand times. I should perhaps premise this by saying that, as an individual and as a Liberal, I am in favour of free trade. I am just not convinced that this is a good deal or the best deal we could get.

Having said that, I am not convinced that we have secure access. I am wondering if you could elaborate a little bit on that.

Mr. Powis: I guess, unless the United States and Canada are prepared to totally abandon their trading remedy laws as part of this negotiation, they are still in place. To that extent, access is certainly not secure, if we are dumping product into the United States or if we are heavily subsidized in a

way the Americans do not like. It is too bad we cannot get that, but I doubt whether we would be prepared to give up that sort of thing ourselves. What we do have, however, is a new mechanism for resolving these disputes.

In my view, this is a vast improvement over what is presently in place. At least it holds the Americans' feet to the fire to fairly interpret their own laws. The problem we have been facing over the past two to three years is that what used to be a quasi-judicial process in the US in interpreting matters of dumping and countervail has become totally politicized. You are getting decisions out of the International Trade Commission, or whatever it is, that are totally inconsistent with American laws.

We are the largest producer of softwood lumber in Canada, and I am absolutely persuaded that what happened to us could not have happened to us had this been in place. Similarly, we were nailed with an 85 per cent dumping duty on potash earlier this year, thankfully since resolved. That was totally bizarre. In no way could that have withstood the scrutiny of the panel that is going to be put in place.

The Vice-Chairman: I appreciate your comments, Mr. Powis. I will go to the committee in a second but, just on that issue, the legal advice that the Premier (Mr. Peterson) and the government of Ontario have been getting from some notable sources, from solicitors employed by the Ministry of Industry, Trade and Technology in Washington, Blake Cassels and our own staff is that, indeed, this tribunal is not any better but, in fact, worse than the prospect of going to the General Agreement on Tariffs and Trade, where we have been battling a pretty good average, which is in direct contrast to what you are saying. I do not know what the resolution to this is.

Mr. Powis: I am going to turn that over to the only lawyer present here, Mr. d'Aquino.

Mr. d'Aquino: With the greatest of respect to the professionals who gave the legal advice to you, the Premier and the government, we think they are wrong.

The Vice-Chairman: That was a given.

Mr. d'Aquino: Let me try to explain why they are wrong. First of all, we are very familiar with the legal opinions that the government of Ontario received. Indeed, when we read them, we were so concerned about them that we promptly went out and asked a number of other people to give us legal opinions because we thought, "We do not think we are wrong, but let us see what other independent professional people have in mind."

We commissioned not one firm, not two firms, but three firms, all three very well known, highly regarded professional firms that are headquartered in this city, and all three firms disputed strongly the positions that were given to the government of Ontario. But I will not stop at that. The American Bar Association, the Canadian Bar Association, legal experts at the GATT and the vast preponderance of legal experts I know in the international trade bar have said the dispute resolution mechanisms that have been concluded by Canada and the United States are superior to those in the GATT and, indeed, are superior to anything that exists in any free trade agreement in the world, a view that is also adhered to by very distinguished academic people, such as a professor at York University in this city, Professor Castel, who offered yet another opinion, a fourth opinion, to say that you are absolutely right.

Having said all that, with respect, by far the preponderance of weighty

legal opinion is on our side. But let us put that aside and just consider one other thing. What about the practical implications of dispute resolution to people who do business on a day-to-day basis?

What business people, small and large, will tell you is that, first of all, under the GATT, it takes anywhere up to two years or more to resolve a trade dispute. You have to consult with up to 90 other people at the outset. You have a situation where there is no prenotification required--it is an after-the-effect type of determination--whereas what is proposed in the free trade agreement is limited to 315 days or less. Believe me, to someone who is doing business, the difference between two years plus or 315 days or less is very meaningful.

Second, the cost factor is substantially smaller. Why is it smaller? Because under the proposed free trade arrangements that have been negotiated, it is the government of Canada that will carry the cost and the banner, particularly on behalf of the small businessperson in Ontario, who at the present time is looking at this legal apparatus and saying that it is far too complex and too costly.

Third, even by the testimony of people in the GATT itself, it is a vastly less complicated procedure.

So I do not understand, and none of us in this organization understands, how it is that the Premier and members of your government, in the face of this overwhelming evidence, both practical and legal, can continue to insist that what we got was either inferior, as you have suggested, or just marginally better, as I think the Premier said in Switzerland in the last 24 hours.

The Vice-Chairman: I am sure we could debate this all day, Mr. d'Aquino, and I suspect really that time will tell. At this juncture, I would like to defer to Mr. Mackenzie.

Mr. Mackenzie: Gee, I thought you were going to have a couple more tough questions, weren't you?

The Vice-Chairman: I could have about another 10, but that is not fair to you.

Mr. Mackenzie: Not very tough, though.

You referred to the dispute settlement mechanism. I am sure you are aware that a lot of the testimony before this committee, and certainly some of our own analysis of it, is that it is not that much of a gain. I am wondering how you think that the dispute settlement route is going to resolve the problems in the political context that it is always going to be in in the United States.

I do not know how you deal with the kind of pressures that are going to come from certain of the US senators in various states when their interests are at stake. As long as we have not done away with countervail, and it is very clear we have not, what are we really going to gain with a dispute settlement mechanism? It certainly cannot roll something back; it can do nothing but decide whether they really ruled in accordance with their law.

Mr. Powis: Exactly. Over the years we have fought off a large number of trade actions, some of them aimed directly at us. In large part, they were aimed at other people and we were getting sideswiped. Actually, we won them

all until the last couple of years. In the last couple of years our company lost on softwood lumber and we lost on potash.

We cannot get away from the fact that the US and Canada have rules on dumping and have rules on subsidy and that sort of thing. What we can do, however, is make sure that those rules are honestly enforced, and that is, in our view, what this dispute settlement mechanism will do.

The second thing I think it will do is stop people from launching some trade actions that we have been faced with which are totally frivolous, if they know we do not have any chance of success.

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Mr. d'Aquino: I think we can add to that. There is also a requirement, which does not exist under the GATT, that there be prior notification and consultation if a problem arises. That in itself will be very helpful because we will not have a situation where you are called upon to go cap in hand and try to do what you can once the matter has already, essentially, been resolved politically by tribunals in the United States. That in itself is a confidence building factor. In other words, if we talk about the access question, if people are exporting into the United States but are faced with a tremendous amount of uncertainty and a situation that it would seem the Ontario government would consider to be preferable--that is, dealing through the GATT, which essentially means the status quo to us--we still have this terrible problem of whether we are or are not going to be dealt with fairly.

That is a confidence factor which has a very profound impact, particularly on people who are small and even people who are big like Al Powis and his operation, knowing that you might not be dealt with squarely. That in itself enhances access. Anything that builds confidence and leads you to believe you are going to be dealt with more fairly induces you to do business a little more easily. That is another factor I think has to be taken into account.

Mr. Mackenzie: Do you think, in effect, it would be more effective, or any more of a confidence builder than the so-called snapback provision in terms of agriculture which, when we get into it and get the testimony, indicates that it takes two days to flood the market, but it takes seven days before you can institute an action?

Mr. Powis: I cannot claim any expertise on that.

Mr. Mackenzie: Most people, when they looked at it, did not think it was worth anything, in effect, the snapback provision; yet it was a confidence builder in that part of the particular deal.

Mr. Powis: I cannot talk for how long it takes to flood the market with fruits and vegetables, but, as I say, we have--

Mr. Mackenzie: I was putting it in the context of a confidence builder, the argument that was being made.

Mr. Powis: All I can say is, had this mechanism been in place two years ago, we would not have got into the trouble we got into in softwood lumber or potash.

Mr. Beer: Can I just ask on that, because I think it ties in? You

mentioned that earlier and I would be interested, because it is a specific example of two that suffered from that in your industry. Can you set out how it is you feel that, had this existed, that would not have happened? I would be interested in going through that, if you would.

Mr. Powis: Let us just take softwood lumber. We first fought off this exact same trade action four or five years ago, successfully. It was reinstituted two and a half years ago by the industry because of the US industry's perception, not that the law had changed and not that the facts had changed, but rather that the whole process had become politicized. In October 1986, we got a preliminary determination that the stumpage system which existed in Canada was a subsidy and we got nailed with a preliminary determination of 15 per cent countervail.

I cannot really explain to you in detail what happened next. I can only assume that the federal government was told that the fix was in on this issue and we were going to lose it. We will never know whether we would have. However, the Canadian government at that point chose to put on a 15 per cent export tax. Again, my interpretation of that is that if 15 per cent was going to have to be paid, better it be paid to Canadians than Americans.

As far as I am concerned, we had won this thing several years prior to that at a time when this really was a quasi-judicial process. It appeared that we were going to lose the second time around, and the only thing that had happened between those two events is that that whole process got politicized.

In my view and in the view of anybody who has really studied this and studied that whole background, had we had this panel to go to, it never would have got that far. It never would have happened that way.

Mr. d'Aquino: I might add to it, that it may not have even been instituted. Why would it not have been instituted? It is because, if the facts had not changed, a binational panel that had Canadians and Americans on it, whose goal and mandate was to review the decision to see whether it is totally in conformity with the laws and administrative record, would have looked at the previous record and at the facts, determined that they had not changed, and have said, "Terribly sorry, you people are out to lunch."

If you were the legal adviser to the Louisiana producers and you said to them: "Gentlemen, terribly sorry, but if we go ahead on this," and I tell you the facts have not changed in Canada, which they had not done, "and we get to that panel, there are going to be a number of Canadians on it, and they are going to insist that we look back at the previous decision--nothing has changed. Good-bye. You are out of luck." That is exactly what would have happened in softwood lumber.

So to argue, as some people have, that the softwood lumber decision, which Alf has had a lot of personal experience with, would have been dealt with differently even if we had this dispute resolution mechanism makes no sense whatsoever.

Mr. Mackenzie: You make the argument early on in your few remarks that the agreement will lead to better access to the United States market. I am wondering if you can elaborate just slightly on that in view of two things that most of us have noted in the course of the hearings and in the course of various presentations--to the cabinet committee around the province as well as the previous committee we had here--concerning the steel producers and the forest industry.

I am referring once again, as I have previously, to that breakfast we all attended very recently over at the Sutton Place Hotel where the message fairly clearly was that what they were really after in this pact was to protect the status quo. Certainly the steel producers were not anticipating a great increase because of the obvious problems that it would still present in terms of dealing with the US industry.

When you say better access, is your position the original arguments that were made, that we have got this vast market and we can really access it, or is it one that we have seen from two of our major groups in this country, that we are trying to protect the status quo? Others have argued the same thing, I might say.

Mr. Powis: In a lot of the businesses that I am in, we have access to the US market. Yes, we are trying to protect the status quo. The status quo, I might say, is under very serious threat from things like the softwood lumber countervail. There is a very real danger, just extrapolating from that, that the same kind of reasoning that applied to softwood lumber could apply to aluminum, pulp, newsprint and a whole host of products. That was a very dangerous precedent.

Yes, in a lot of areas we are trying to preserve what we already have and which is very seriously under threat, and there are a lot of other areas where we can see opportunities for increased business with the United States. These are areas where we presently have fairly prohibitive tariff barriers against entry.

Mr. Mackenzie: You can see a substantial increase in investment and in the production of jobs?

Mr. Powis: Yes. I think so.

Mr. Newall: I could comment on that, but first let me make a comment on the steel thing. I think maybe the best answer to your concern on the steel side is that the people who head the four major steel companies in Canada feel that this agreement is a significant step forward.

Mr. Mackenzie: I have always prefaced my remarks previously with that. I just assumed you automatically knew. That was not what caught my attention. It was the reporters afterwards saying, "Well, can they still institute countervail?" Answer: "Yes." I am talking about Mr. Phoenix's appearance before the committee.

"Is it possible that you may still get hurt by the current legislation before Congress?" Answer: "Yes."

"Do you see it as a way to protect the status quo or to increase penetration?" Answer: "Protect the status quo."

This left me wondering what we were really fighting for in the deal, although it was a very strong presentation in favour of free trade, I will admit.

Mr. Newall: In my businesses, going down the river from Brockville to Sarnia, the product we are exporting to the US faces tariffs of five, 10 or 15 per cent. Five per cent may not sound like an awful lot, but it is five per cent out of your profit margin in addition to five per cent out of your sales dollars. If you have a business with a pre-tax profit margin of 10 or 15 per

cent, that is a third of it absorbed by tariff. It makes it difficult to compete.

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When business gets tough in a market, as it is wont to do from time to time, the competitors in the United States, when they have that tariff to shield them from us, duck down behind the tariff and kick us out of the market. We do the same thing to them in Canada with the tariffs here. If we get rid of those tariffs, we will be in a position where we can feel much more confident that we can protect our export market positions in the US through thick and thin. When we have that confidence, we will have more conviction about pursuing that business.

When we looked at all, or almost all, the investments we have made over the past 10 or so years, almost all of them, increasingly, had an export component. In the kind of businesses we are in, what is a short run to a US business that it cannot be bothered with is pure gold to a Canadian manufacturer. If it is a long run, it is a nice piece of business.

We see just a tremendous number of opportunities for the specialty products we make at Whitby, Sarnia and Brockville filling small niches in the US market. It will allow us to specialize. We do see increased investment as a result of the trade agreement, we do see increased jobs as a result of the trade agreement and we do see reduced losses of jobs to Asian and European competition as a result of the trade agreement, because it gives us both a leg up on each other's market at the expense of the offshore producers.

Mr. Mackenzie: This is a question that was asked the group previous to you here today. It might be that some of the pro arguments would be better made if a concrete laying out of what is possible in jobs were done. We have arguments whether or not there should be a winners and losers shopping list, but I have a note here that in some of the hearings that were held federally, even government officials concluded they had no supporting studies to justify such claims. I wish I had had this in my hands earlier this morning when we were discussing this.

Canadian deputy chief trade negotiator Gordon Ritchie admitted that. Mind you, they were supporting it, obviously, once again. The actual quote is: "At the moment we have a judgement, but we do not have a stack of supporting studies." By contrast, there was no shortage of witnesses who could point to certain job losses from the deal.

We have asked many times--and certainly I have done it myself over the last couple of years--for a winners list. Quite literally, we have not had it, in spite of some comments.

Mr. d'Aquino: If I may respond to Mr. Mackenzie, first of all, it is not a fact that there are no studies; there are many studies. In fact, the preponderance of studies, from the Economic Council of Canada to the Department of Finance just a couple of weeks ago, offered varying numbers of anywhere from between 120,000 over five years to 350,000.

To what Donald Macdonald said, let me say--

Mr. Mackenzie: I think we are going to have them back on the finance ones, because we would like to know whether that is based on change in our dollar, a further drop of 3.5 cents.

Mr. d'Aquino: Let me make my point. There has been an enormous amount of debate on the numbers. Although we have had the great advantage of the vast preponderance of economists saying, "You are right; it is going to bring net benefits to Canada," in the business council we have been very reluctant to use those numbers, although the opponents of this thing have been ready to throw the numbers around very easily.

What we relied upon are the judgements of people like Ted Newall and Alf Powis and the hundreds of thousands of small and large business people in this country who do not rely on econometric models or studies or show us the winners and losers list. They are people who look at their businesses and say: "Will the dropping of tariffs mean that I can sell more? Will the change in the procurement legislation"--and you were asking about access--"mean that I will have access to more of the US market?" Yes. "Will the change in the safeguard legislation that will not be so punitive on us mean that I will have improved access?" The answer is yes. "Will lower tariffs mean more access?" Yes. "Will this better dispute resolution--"

What these small and large business people have been saying now for a long, long time is: "We have looked at our businesses. We love Canada. We love our enterprises. We are not prepared to see them sold down the river and we think it is going to be good." That, to us, is really the bottom-line test, not what the economists and the econometric models say, even though those are largely to our advantage.

Mr. Mackenzie: If you will forgive me, there are also some of us who like to talk to not an individual group of people who obviously have an interest in their business and obviously want to see it succeed and obviously have the interest of improving their enterprise, but I also want to know what is going to happen in terms of actual jobs.

People have laid out the industries and the jobs very clearly. They talk about the studies that you are talking about, but I have not have anybody tell me--I can recall putting it to the petrochemical association in Sarnia, when it was before this committee, one of the ones that said, "We will see job growth in our area." I asked them specifically, "Whether it is a good question or not, can you show us what the growth is?" After they hummed and hawed for a few minutes, they came up with possibly 100 jobs, but what really threw me was about \$60 million in additional investment that was necessary for those 100 jobs.

There may be a lot more than that there. All I am saying is when we had the spokesmen for those groups before us, they certainly did not give us what might have been a very effective argument. I guess I am saying I want to know what is going to happen to these people, because some of the people you are asking to tell us that this is good for this country are not necessarily the same people who have fought for the things I have fought for, which are jobs, our medicare system, our safety and health legislation, and so on. There are other people I want to consult on the thing as well.

There is one final question I want to ask. We had a small business group before us yesterday. I suspect they are probably the renegades, inasmuch as their position was not the same as that of the various business groups we have had before us. But what bothered me about that particular group was that all of them seemed to be people who had their own businesses, some of them reasonably substantial, but none of them had been consulted about the position of their umbrella organizations in this, which is why they had started to organize their own business group.

We had had, just before them, a presentation by consulting or professional engineers who made a fairly strong presentation in support of it. As it turned out, I think to all our surprise, certainly to mine, one of the women was listed as an engineer, but four of the six people in the group were professional engineers and none of them had had any consultation from their group at all. None of them agreed with the position their group had taken and all of them raised some serious questions with us about how this group was necessarily speaking for them.

I do not have the same sense with your group. I suspect you are speaking with some unanimity and authority for your group but I am really wondering, when you stress the small businesses, whether you are speaking for them all.

Mr. Newall: I could say to you that the preponderance of membership of manufacturers in the Canadian Manufacturers' Association is of small and medium-sized business. Of their some 8,000 members, I think 6,000 or 7,000 of them are what would be called small and medium-sized business. The CMA has consulted with them with some frequency over the last two, three or four years on this. It is not unanimous.

Mr. Mackenzie: Can you quantify it at all?

Mr. Newall: In the CMA's case, I think its membership is 80 per cent in favour and 20 per cent against.

The Vice-Chairman: Over what period?

Mr. Newall: This is over the last year or so. If you had consulted that same membership 10 years ago, the numbers probably would have been reversed.

The Vice-Chairman: May I interject something that is extremely important to your scenario? We did not see the deal until December 11. I agree with you that small business, for example, is on record as supporting free trade and its spokespeople are saying, "We are supportive of this deal," but is it not a fair statement that no one has really had a survey yet of small business, if you will, based on the detailed analysis of this deal?

Mr. Rutley: I think the Canadian Federation of Independent Business has done such a survey since the official, final text has come out. You will have to check that.

The Vice-Chairman: The point I am making, and I do not know whether you agree or not, Mr. d'Aquino, is that to say there is a large majority of people in favour of free trade, yes, most people in this room, including my colleagues, want to be included on that list. But to say we like this deal, I am not sure we have a fair--

Mr. d'Aquino: I am sorry. I am glad you are being punctilious about that because that is important. First of all, it is wrong to say that the small business community or the big business community or business generally had this deal dropped on them on December 11. First of all, they saw the elements of the deal, which were essentially vindicated if not slightly improved upon, in the first week of October.

Second, the small and big business community, all the business community has been engaged in this debate for the last two, three or four years, and all aspects of the debate--do you go to tariffs in 24 hours, do you go to them in

five years?--has been very much debated.

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But on the issue of who speaks for whom, I always get a little bit nervous when people such as yourselves, who after all are elected and know the meaning of parliamentary democracy--you had before you not too long ago Donald Macdonald and approximately, I do not know, 20 or 25 organizations. Those people stood up--Roger Hamel, who spoke for 50,000 members in Ontario; Catherine Swift on behalf of the CFIB, who spoke for 450,000 Ontarians; the Canadian Manufacturers' Association are on this list here; I have not quite found them yet, but they speak for many thousands more. Those people stood up and, on the public record, said, "We speak for our members." Now, does that mean that out of the 450,000 members there might be five or eight or 10 or 20 or perhaps even 50 who disagree? Quite possibly so, and there is nothing wrong with that. There are even people in our organization who do not totally agree but who have some reservations. But let us not question the legitimacy of people who come before you and who speak on their behalf in the thousands and in the hundreds.

The Vice-Chairman: If I implied that, Mr. d'Aquino, then I apologize. The implication was not that they did not have the authority or the ability to speak on their behalf. My concern was, and I know even if the elements did come out in the first week of October, for example--because my particular love and interest is small business--the survey results came out before the elements. The survey, in my view, to some extent said, "Are you in favour of free trade?" and not the specifics of the deal.

I question in no way their legitimacy to speak on their members' behalf. My question is whether or not--and I cannot even begin to quote numbers--even a majority of the membership that they represent understand the deal. The same can be said about the Canadian public in general, and I suspect probably most people would still be confused. It is in that context that I am showing some concern.

Mr. Newall: I am not a lawyer; I have not read every word in the deal--

The Vice-Chairman: Some might say that is to your advantage.

Mr. Newall: --but I understand one fairly straightforward thing, and that is that in the businesses I am in, we are going to zero tariffs into the United States in five or 10 years. We had urged that some of those go to zero in both directions in the first year. That fundamental and far and away the most important piece of this whole arrangement is widely and thoroughly understood by business, and business understands what it is going to mean for their ability to export to the US. That is why we are in favour of this deal.

You know, there are things at the fringe that would have been nicer to get more of or less of, but the fundamental thing, getting rid of the tariffs that are in place, is what makes it a good deal.

Mr. Beer: I suppose that all of us here ought to know about percentages in terms of who voted for whom. I may sit for a riding; I did not have 50 per cent of the vote. Fortunately, I had sufficient to sit here, and I could also not say that everything I say is going to be agreed to by the voters of York North.

I wonder if I could follow up with Mr. Powis. One of the interesting things about sitting through hearings like this is that one begins, certainly in my case, with some information and some knowledge, and as you go along you build with that. Perhaps if you had been here last week, I might have been following another line, but I am particularly interested because we got into the dispute settlement mechanism and I was interested in your analysis of the softwood lumber deal.

I would like to tell you that yesterday one of the witnesses we had was Mr. Martel from the Ontario Lumber Manufacturers Association or something like that--in any event, one who was in an area that was affected by the softwood lumber deal.

One of the concerns, I guess, that he and members of his association had was that the actual free trade agreement enshrines or refers directly to the softwood lumber agreement. What did that mean, particularly in terms of the resources area? If that had been left out, perhaps that was something that could be changed. He was particularly concerned that he felt the Ontario situation was and had been quite different from those of British Columbia and Quebec and that, in point of fact, the Ontario lumbermen had perhaps suffered the most, but because they were the third in terms of production, we had to sort of go along with it. From the perspective of your sector, in terms of the resources, is it particularly worrisome that this has, and perhaps I am using the wrong word, been in some way or other enshrined in the agreement and is therefore kind of standing there as an acceptable model to use in other instances?

Mr. Powis: You are quite right. The deal does state that nothing in this would affect the situation with respect to softwood lumber. It does not necessarily enshrine it, but I think what that might argue is that in the absence of that clause, the softwood lumber thing would have gone out the window in terms of the overall deal. I have a high level of sympathy for Ontario lumber producers. It happens that our lumber production is largely in British Columbia, and in British Columbia now we are out from under the 15 per cent tariff because we have put the stumpage rates up so high that nobody can make any money any more.

In any case, what that whole thing did was take the Canadian lumber industry which according to the United States Department of Commerce derived its advantage because Canadian sawmills in aggregate are 26 per cent more efficient than American sawmills--we were the cost-effective lumber producers in North America and now we have been converted into the marginal producers of lumber. It is not something I appreciate very much. I guess all you can say for it is that we are not going to get out from under it very easily, but it would not have happened to us had this deal been in effect two years ago.

Mr. Beer: I take it from this that you really believe that if, whether in your sector or any other, a case ultimately made its way to the dispute settlement mechanism, the kinds of arguments that were used to, in effect, bring about that 15 per cent charge just would not sell in the dispute mechanism.

Mr. Powis: What in effect that decision said was that if Canadians get anything cheaper than Americans--for example, an Ontario steel producer buys power more cheaply than an American steel producer--then that is a subsidy. That of course is not what their law says and is a total perversion of their law, but that is nevertheless what the finding was.

Mr. Beer: The other thing I would like to touch on--it also came out as one example in the discussion we had with the lumber people--deals with the exchange rate. Here, if I understand correctly what the gentleman said, in addition to the 15 per cent that the Canadian dollar had improved vis-à-vis the American dollar over this period of time, they were also, if you like, paying another price in terms of exporting. We have had a number of questions that have come up in terms of this deal relative to changes in the exchange rate and what that would do, in that clearly one of the benefits for Canada as an exporting nation at the present time is the relationship between our dollar and the American dollar.

Some of the studies we have been told about have suggested certain changes in the exchange rates. Have you looked at that particular issue? You may well have in here, and I will see that later. How do you view that particular problem, if you feel it is a problem? Some people have suggested that the Canadian dollar may go up to 80 or 85 cents. How will that impinge upon this agreement and what sort of factors do you see with respect to that?

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Mr. Powis: Exchange rates are something I am totally preoccupied with at all times, I have to say. My colleagues are laughing because I caused a bit of a dust-up several years ago in the business council on the whole subject. By and large, resource producers establish their prices in international markets in American dollars. As the Canadian dollar goes up we get hurt and as the Canadian dollar goes down we get helped, at least on a short-term basis. However, Canadians have total tunnel vision. We think our dollar has been strong in the last little while. It has been absolutely murdered by virtually every other currency in the world except the US dollar. It just happens that the US dollar has been slightly weaker than ours.

If we go back three years ago in the forest products business, we were getting killed because during the 1980s, up to the early part of 1985, the Canadian dollar had gone up 91 per cent against the Swedish krona. In effect, what that meant that was our total cost structure against Sweden had gone up by very close to 90 per cent and we were getting killed while they were coining money. Now the whole thing has turned over. We are now very profitable and the Swedes are having trouble. It is not just competing with Americans. We do compete with Americans in forest products but we all compete with Scandinavians. It is that third-country competition that can kill you.

OK, the Canadian dollar has gone up in value; however, it has gone up in value partly, I think, because Canadian resource producers are once again competitive in world markets and are profitable. It really depends on the international context much more than just the US-Canadian dollar relationship.

There is nothing about exchange rates in this deal. They are going to be what they are going to be and we have to live with them.

Mr. Beer: Essentially, free trade deal or no free trade deal, there are going to be cyclical adjustments as we go along and that is something you would say, as a person actively involved in that sector, we are going to have to live with. Sometimes we are up and sometimes we are down. The deal itself is not going to affect that particularly.

Mr. Powis: I do not think it is going to affect it particularly. I suspect this deal is going to strengthen the Canadian dollar in relation to the American dollar to the extent it strengthens the Canadian economy. We will

live with that. What I would have to say though--this has nothing to do with this deal--is that the turbulence in foreign exchange markets is a very destructive thing in terms of trade, no matter where you are doing it. We have gone through a cycle in seven years in which we went from highly competitive to totally uncompetitive and back to highly competitive again, not by our own doing but just by relative exchange rate movements.

The Vice-Chairman: I should point out to the committee that much to the chagrin of the chairman, who through his exuberance has caused some frustration on the part of the committee members who want to ask questions--notwithstanding that fact, Mr. MacIntosh of the Canadian Bankers' Association has agreed to postpone his presentation for 15 minutes and indeed Mr. d'Aquino and his delegation have consented kindly to stay with us an additional 15 minutes, so hopefully we will get everybody in on the action, if you will.

Mr. McCague: My question is to you, Mr. Chairman. Is that legal?

The Vice-Chairman: No.

Mr. McCague: It is not legal. OK, I will pass.

Mr. Morin-Strom: I find it interesting that you focus on tariffs as being the major aspect of this agreement and what is going to generate the benefits to our economy when most of the testimony we have heard has indicated that this is not a deal primarily about tariffs. In fact, even the forecasts from the economists who favour the agreement admit that the various studies that have been done which show positive total benefits are indicating a total impact on gross national product of anywhere from one per cent to three per cent after 10 years from this agreement.

Certainly, the debate that is going on across Canada is not focused primarily on the impact of tariffs and whether we are going to get a benefit as a result of the lowering of those particular barriers. The debate is much more focused on the political and philosophical ramifications of this agreement and how it affects Canada as a nation in the long term.

Even given that there may be some benefits from the tariff reductions, and that a much higher percentage agree with the principle of reducing tariffs and moving towards free trade in that type of economic sense as opposed to where this whole agreement is going, this agreement gives us no assurances at all that we will have a fairer society here in Canada, that we will move towards greater equalization of wage levels or income levels or standards of living between different occupations, between different regions of this country, protecting particularly those at the bottom rungs of our society economically.

There are no assurances--in fact, there seem to be questions raised--whether we can maintain and improve upon our system of health care, our systems of social programs and the other items, including regional development, which Canada has historically made priorities and which the United States has not because of its allegiance to the market system.

You must recognize as well that even when we talk about job increase as a potential, we have not seen any evidence. In fact, I suggest there is a good possibility that we would be looking at redistribution of jobs, in many cases, from well-paying manufacturing jobs to much lower-paying jobs in the service sector, including many minimum wage jobs of the type that McDonald's offers,

as well as lower-paying jobs in the service sectors that are being encouraged by the continued contracting out of work by the major companies in the industrial sector, presumably the ones that you are representing.

As a result of this, we know there is a serious debate as to whether this agreement is good for the country in the long run. You must recognize that the Prime Minister does not have a mandate to complete this agreement or to implement this agreement and the chances are very good that following the next election, the agreement is going to be cancelled. These positions certainly are polarized and I do not see any way of a meeting, a middle ground between these philosophical positions.

When the Canadian public gets its opportunity to decide which position is going to be upheld, if the Canadian public decides we are going to support a party that is going to cancel this agreement, what are the ramifications going to be?

Mr. d'Aquino: May I begin? I know all of us may have something to say about this.

In the council, we have long been very concerned about the reservations, long before the actual deal appeared on the table. We were the first organization to stand up in 1984 and say that cultural industries should be exempted if a free trade agreement was concluded, for reasons I do not think I have to explain to anybody in this room, but do keep in mind that it was an organization of business people which said this and thought this. We have always been of the view that the progressive social system we have built in this country is not for sale, if I can coin the words and the phrases of a well-known politician.

The reason we feel this is that we think we have a better system in many instances than the Americans have. We are not prepared to trade our medicare system for theirs. In fact, I do not know of a single American who would not rather have ours than theirs. All you have to do is talk to Americans down there and find out how much it costs to stay in a hospital overnight.

We walk around in Canada with this presumption that what we have has to go and what the Americans have has to be the norm. We do not accept that; a lot of Americans do not accept that; and certainly the majority of Canadians do not seem to accept that.

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Second, we have always believed that the way you pay for a progressive and important set of social programs--because you have to pay for them somehow--is through exports, through productivity and through growth. To us, the mainstay, the anchor, of a progressive social system that is one of the best in the world is that you have to have a vibrant and growing economy to support it. That is where there is a fundamental distinction where we say yes to good, progressive social programs, but let us first be able to pay for them by ensuring that those who work, those who have incomes and those who build enterprises are able to grow. We see the free trade agreement as giving us a net benefit.

On the whole issue of regional development, over and over again we heard from the critics that the deal would curtail our ability to undertake our own regional economic policies. Not so. We heard over and over again that our social programs would be dismantled because they would fall into the category

of what was unacceptable. Again, not so. We heard that our cultural programs would be eroded and destroyed. Again, those were exempted.

All these fears--some of them legitimate, some of them coming from people who have a very different agenda than ours--have really not panned out. I come back and ask the question, what is it about the free trade deal that you can demonstrate will undermine these very important things that I think all Canadians strongly support and want to maintain? What is it that is actually going to do it? As a member of your party, do you not accept that the way you build social programs in this country and the way you maintain them is by having a very progressive private sector, one that works well with government, and people who have increasingly higher and growing incomes and industries that in fact are productive and growing? That is what it really is all about.

Mr. Morin-Strom: I do not think I got an answer to the question. What I accept is that there is a democratic process in our country that determines where our country is going to go. That has not been adhered to to this point on this particular issue, which is of such critical importance to the long-term future of the country.

That process inevitably will happen because an election is inevitable and people will have their chance to say--

Mr. Newall: If I could volunteer--

Mr. Morin-Strom: I want to know, when the people have their chance to say, how much risk are we being put at in terms of our economy by the Prime Minister for having brought forward this agreement, if in fact the agreement is going to be cancelled by another government.

Mr. Newall: Not much happens in six months.

Mr. Morin-Strom: So you think the risk is relatively minor.

Mr. Newall: I think if this agreement is torn up or thrown out or whatever phrase you want to use, it will do tremendous damage to the economy and the level of investment in this country. In the span of time between January 1 this year and January 1 next year, there are not going to be a huge number of decisions taken that would cause great damage if that happened. The real damage would be created by throwing the deal out, and the damage that will do to investor confidence.

Mr. d'Aquino: May I add that there has not been a social democratic movement or party anywhere in the industrialized world that has taken either the European free trade agreement or, if we want to talk about common market agreements, that has said it is opposed to a common market, or whether we are talking about a free trade agreement in the case of Australia and New Zealand, that has promised in advance it would tear it up, or subsequently tried to tear it up. According to my research, the only place in the industrialized world that I have seen where that kind of statement and commitment has been made is Canada.

Very recently, I was talking to a prominent social democrat from Sweden, as well as a social democratic parliamentarian from New Zealand, who heard about this and expressed enormous surprise, saying: "It would not have happened in our country. I cannot understand how it could happen in Canada.

Mr. Pelissero: During the course of the hearings and submissions to the cabinet committee, some figures have come out, in that approximately 80 per cent of the goods between Canada and the United States are virtually at zero percentage in terms of tariffs and that another 15 per cent on top of the 80 per cent on average--and I use the word "average"--average about five per cent and the rest may be in a scale higher than that.

I guess what I am trying to come to grips with as a committee member is if, in fact, those are accurate numbers, plus or minus two or three per cent each way, is what we gave up or what we perceive to have given up worth what we are getting from a deal perspective, just to reinforce what the chairman said, in terms of being in favour of anything that would reduce trade barriers?

I should probably preface my question with the remark that I probably have half a dozen wineries and probably close to 50 per cent of the grape production in Lincoln. So recognize that they were by no stretch of the imagination nothing less than a bargaining chip in this process, to the point that the federal government did not even allow the industry the same time frame, either the 10-year time frame or, as you refer to in your brief, the protection of a 20-year snapback, and I would give you about a half an hour's argument on why it is useless, but I will not do that. We ended up with our federal negotiator saying that our grape producers or, more particularly, our wine industry in terms of the markup perspective, can handle it in seven years and in the first two years they have to take a 50 per cent hit.

So I guess when I say that trying to take a look at it from a global perspective and bring it down to what is it going to mean to individuals, as Mr. Mackenzie has attempted to do and I know you have attempted to do--is it good for me, as an individual, as an individual businessman, as a company, and as a country?--trying to set all the rhetoric aside and recognizing that the status quo is not going to be there and recognizing that we are partners in GATT and through GATT, for a number of years, the tariff barriers have been reduced, I am still trying to come to grips with whether it is a good deal in the sense of what we got in terms of securing access.

Certainly, in the process leading up to the actual draft agreement, people were talking about us having access to this 250-million-person market. Then as we got into the discussions during Mr. Reisman's and Mr. Murphy's exercise, we switched into a mode of, "We had better cut a deal because we are going to be able to secure the access." I sat in on the Hamilton hearing where the steel producers and other representation was made that, "It is good because we are going to be able to cement what we have got."

Then, at times, we shift into a mode of talking about the protectionist legislation, the omnibus trade bill that Congress may or may not be considering, and I would like your thoughts on what happens if they pass that before the deal with the free trade agreement, what your recommendations would be. I guess I am still trying to get a sense of whether we did get access to a greater market and is the dispute settlement mechanism better than what is in place. Certainly, you have given us that viewpoint on those two subjects.

So maybe I will stick to the omnibus trade bill in the sense that even Donald Macdonald, when he was before us, said that if in fact we are not exempt from that particular trade bill, we had better stop and rethink our whole procedure in terms of this free trade agreement. What would your advice or direction on that accord be?

Mr. Powis: Could I take one point of detail which is off your main

question, and that is the question of the fact that 80 per cent of trade is tariff-free already? Eighty per cent of trade is tariff-free because there are no tariffs.

Mr. Newall: Which comes first, the chicken or the egg?

Mr. Powis: There is a lot of trade that does not take place because the tariff barriers are a shutout both ways.

Mr. Newall: You have a very fine operation--I think the firm is probably in your riding--called Lincoln Fabrics in Port Dalhousie.

Mr. Pelissero: Yes.

Mr. Newall: That is a very fine specialty fabrics firm down there which makes industrial fabrics and fabrics for skates and things like that. They face tariffs in the US of 20 per cent to 30 per cent on their products, so they cannot participate in those specialty markets. The reason 80 per cent of our trade--to a significant degree; not totally, but to a significant degree--is duty-free is because there are not any duties on the 80 per cent of the trade that was going on. If we did not have any duties on all the rest of the products that we make up here, the mix of that trade with the US would be significantly different.

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Mr. Pelissero: Was that percentage figure steadily climbing in terms of us going from 60 per cent to 80 per cent, or is it dropping, going from 90 per cent to 80 per cent through GATT, or is GATT not a factor in that percentage figure?

Mr. Powis: I do not think I could answer that in any specific way. Mr. Newall talks about apparel. We are in copper fabricating manufacturing businesses and the tariff level on those products is such that there is no trade, or no trade to speak of. Now, under a free trade agreement, there obviously will be a lot of trade, but that is why so much of the trade is duty-free; there are whole other sectors of the economy that do not trade because the tariffs are too high. That is why we have the high preponderance of duty-free trade.

In terms of your other question, if I might take one first stab at it, it relates to the US trade legislation. We do not know what it is going to be. We cannot give you an answer, I do not think, as to what our reaction would be in terms of supporting this deal if it was also subject to US trade legislation. I do not know whether that is ever going to get out of conference. If it does get out of conference, I do not know what it is going to look like and I do not know whether the President has the muscle to sustain a veto if he vetos it. We will just have to face that one when it comes. We cannot have a view on it right now.

Mr. d'Aquino: Except to say, which I think probably is a given, that Mr. Shultz came to Ottawa not too long ago and said that if the omnibus trade legislation is inconsistent with the free trade agreement, there will be problems. The standstill provisions that are negotiated in the free trade agreement have implicitly behind them that there will not be any steps taken that are inconsistent. I think the politicians and the business people of the country have made it quite clear that if the free trade agreement which we

strongly endorse is eroded or blasted to kingdom come by an omnibus trade bill, then we are not longer taking about the same thing.

So we are hopeful that that will not happen. I know the key congressional leaders who say they support the Canada-United States free trade agreement, are very much aware--because they are intelligent people, like all of us, I suppose--that if there are any major inconsistencies, you are going to have a major problem with the free trade agreement.

Can I just add one other little thing? On the subject of the wineries, obviously that is a major problem area. Again and again in our briefs and papers, we have always said there are clearly some people who are going to be hurt and before this very committee you have heard from some of those people. You have some of them in your riding.

It is slightly encouraging to me to know from my own native British Columbia in the Okanagan region, there are some wineries that think this deal is just terrific. I just happened to read in today's Toronto Star where one winery says it embraces the deal wholly and it intends to expand its operation from 12,000 cases of wine a year to between 40,000 and 50,000 cases a year over the next five years. We have seen a number of businesses which, at the outset, say--

Mr. Haggerty: They are a grower, producer and distributor too, though, all in one operation.

The Vice-Chairman: Mr. Haggerty, please, you are up next.

Mr. d'Aquino: Only to say that there are some industries which, if you look at them on a piece of paper, you would say are identical, and some of them would say, "Yes, I am ready to go," and others would say, "Look, I think I am going to be put out of business." What we do discover in the massive process of adjustment that is going on in Canada all the time, with or without a free trade agreement, is that the Minister of Finance has pointed out that five million Canadians change jobs every year. Something like 60 per cent of the businesses that are in existence today were not in existence 10 years ago.

So, with or without a free trade deal, there is massive adjustment and still new businesses, as John Bulloch and others will tell you, are being created all the time. That is not to minimize the damage that is going to be done to some people. We know that and we are not here to carry their brief for them, except to say that in the tussle of day-to-day commerce, there are some people who win and there are some people who lose. We just happen to believe that the vast majority of people, as a result of this deal, are going to be winners.

Mr. Haggerty: I just wanted to ask a couple of questions.

The Vice-Chairman: If you could be fairly brief.

Mr. Haggerty: I want to make use of the time. I glad at least you got to me.

How many members of your association belong to or are part of a multinational corporation?

Mr. d'Aquino: Of the total membership of 150, approximately 27 per cent are foreign-owned companies. If you look at it on an asset basis, about

90 per cent of the total assets which are controlled by business council members are in fact Canadian owned.

Mr. Haggerty: Have you looked from the American side to see what the gains were for the Americans? Maybe I should just read these off. It says: "The free trade deal with Canada will lead to growth and expansion of what is currently the world's largest two-nation trading relationship. Canada will get what it wants most, open access to United States markets."

It already has 75 per cent, and Americans have a \$60-billion trade with Canada. Now look at the impact on specific United States industry:

"Gains for the auto and truck makers: Canadians have agreed to drop their export rebate scheme, making it easier for United States firms to compete and, for bankers, a major easing on ownership of Canadian banks. Telecommunications firms will gain access to Canadian markets." This is one of the major ones. You talk about the service sector. This is where the gains are going to be. "California wineries too and food processors will win, makers of canned and frozen products."

The Vice-Chairman: Could you get to the question, Mr. Haggerty?

Mr. Haggerty: I am just showing the other side of the picture. I am coming to it.

The Vice-Chairman: I would appreciate it if you could expedite matters.

Mr. Haggerty: Mining was the same story: Canada came out ahead in lead, zinc, copper and nickel. If you go to the recent report from the Globe and Mail, this is from a study done by the Bank of Nova Scotia economics department, it said the winners are going to be in the resource industries. That would be lumber, mining and energy. "For lumber, no big changes; Canada will keep its 15 per cent export tax on softwood"--

The Vice-Chairman: Do you have a question, Mr. Haggerty?

Mr. Haggerty: --"and the arrangement does not resolve the dispute on plywood." So, regardless of what agreement we have, with the omnibus bill that is the United States, really the trade agreement we have now means nothing because of that legislation that will be passed in Congress very shortly. We are back to square one again, are we not?

Mr. Newall: If draconian trade legislation is passed by the Congress and sustained--

Mr. Haggerty: It will be passed; you know it.

Mr. Newall: --that does create damage to the Canada-US trading relationship, we are back to to ground zero.

Mr. Haggerty: That is the club they have though, is it not?

Mr. Newall: We are far worse off than we would be with the free trade arrangement, and we are far worse off than we would be today if such an action was taken. I think there are knowledgeable people in Washington who will tell you that is unlikely to happen.

Mr. Haggerty: Those are not the views that I get from there.

Mr. Newall: I would just like to challenge something. I do not want to speak for the bankers' association because they are going to speak to you next, but of the six major banks in Canada, five have solidly endorsed this.

In that economic study that the Bank of Nova Scotia released, it said the manufacturing sector and the chemical sector would be damaged. The manufacturing sector in this country--and this is where I disagree with your assumption earlier on, Mr. Morin-Strom--is going to prosper as a result of this trade agreement, and I can assure you that the chemical industry, and especially the chemical industry, would not be so strongly in favour of this agreement if it thought it was going to be damaged. They all see opportunities to prosper.

Mr. Haggerty: Leading to that, my next question--

The Vice-Chairman: And final question.

Mr. Haggerty: The final one. In your association, have you come up with an employment strategy out of this free trade deal?

Mr. Newall: We have a business strategy anticipating this free trade arrangement, which will lead to more jobs than would be the case if we do not have this trade arrangement. That business strategy includes specializing in products where we can bring things that are special to the whole North American market rather than having to make "me-too" products because the Canadian market is so small that we cannot concentrate on the things we do best. By doing that, we are going to have more jobs and greater opportunities, so it is one of our business strategies and that will lead to jobs.

Mr. Haggerty: I appreciate that, but in the government's report and what the Prime Minister had said, there will be winners and losers in jobs and employment.

Mr. d'Aquino: On the job front, as I think Mr. Wilson correctly pointed out, with the enormous amount of adjustment that goes on all the time, with or without a free trade agreement, the figure is five million Canadians change jobs every year. We know for a fact that the adjustment that will arise out of this phased-in application of the rules of the FTA is going to infinitesimally smaller than that, and we have, let me remind you, very elaborate job support programs in this country. One of the reasons we Canadians spend \$30 billion a year more than we produce is because we do have a very progressive--

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Mr. Haggerty: In the final report that just came out here in January, the Minister of Finance indicated there will be 120,000 new jobs created over a period of five years, so that is about 22,000 or 23,000 jobs a year. That is not much of a deal, is it?

The Vice-Chairman: Any final comment, gentlemen?

Mr. d'Aquino: Only that I gather you have surmised from our enthusiastic support of the deal that we think it is going to be good for Ontario and good for Canada. We are on record again and again as saying this is not a panacea. It is not going to bring the millennium. We need all sorts

of other strategies. We need to deal with deficits. We have to have creative management, better labour-management relations and good strategies all around.

This is only one component of it, but as the industrialized world seems to agree, as the preponderance of the economists seem to agree, and most importantly, as the vast preponderance of business people who are in your province have said to you, to the Premier (Mr. Peterson) and everyone else over and over again, "This deal is going to be good for Ontario."

I guess my only last parting comment is this: I do not know of another situation where in a province that prospers so heavily from exports and where the majority has been so strong in business big and small in telling you that this is a good deal--I do not see how elected politicians can possibly ignore that advice from the people who create the jobs and who create investment. I would like you to just keep them in mind. Thank you very much for the opportunity.

The Vice-Chairman: I appreciate that, Mr. d'Aquino. The only thing I can say in defence is that the majority of business people are not necessarily the majority of Ontarians. But on behalf of the committee, I want to thank you, Mr. d'Aquino, Mr. Powis, Mr. Newall and Mr. Rutley for your very thought-provoking and well-presented presentation.

The committee recessed at 3:22 p.m.

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The Vice-Chairman: I think we are just about ready to start, ladies and gentlemen. First, let me indicate that Mr. MacIntosh is here, along with Mr. Carson whom you may want to introduce to a greater degree, Mr. MacIntosh. As chairman of the committee, I welcome you and sincerely thank you for being so patient in giving us the extra time with the previous delegation. Mr. MacIntosh, please commence.

CANADIAN BANKERS' ASSOCIATION

Dr. MacIntosh: Thank you, Mr. Chairman. I know the press is disappointed about the fact that I do not have a prepared text at all, but with your permission, I would like to lead into a discussion of the financial services sector of the free trade deal with some general comments, arising out of the discussion you have just had and one you had the other day when Donald Macdonald was here and I was in the audience with that group.

Two days ago, Mr. Reagan, in his state of the union message, referred to the free trade deal. As you know, he is in the lame duck year of his presidency. My reading of the political situation in the United States is that the Congress is going to give him some of the things he wants in his final year, of which this will be one. I would like to say a word about the omnibus trade bill which was discussed a few moments ago.

It seems clear that whereas the administration would like to put the free trade deal through first, Congress is going to put the omnibus bill up front. As you know, they are in conference between the Senate and the House now and it looks as though they will be bringing the bill forward some time between April and June, I would think.

It seems to me quite clear that Canada will get an exemption from the omnibus trade bill. I think that is virtually a certainty. It would not make

sense for them to pass the omnibus trade bill and not give Canada an exemption. There is a precedent. They have already given an exemption like that and I would like to refer you to recent reports of the House and Senate committee. I have in front of me a report dated January 27 from the House of Representatives. This is the House version of the omnibus trade bill.

I do not need to go into the details of the section but it is a subsection of section 113 of trade agreements, regarding other tariff barriers, and it says as follows, "In any case in which there is an inconsistency between any provision of this act and any bilateral free trade area agreement that entered into force and effect with respect to the US before January 1, 1987, the provision shall not apply with respect to the foreign country that is party to that agreement."

Now that language was taken from their previous draft bill and it applies to Israel now. In order to bring Canada within the provisions of that exemption, all they have to do is change the wording to apply to any free trade agreement that comes into existence before January 1, 1989. That is all they have to do.

The Senate has a similar version under section 947 of its draft. "There is no application to the free trade area agreements...." I could go into the rest of the quotation, but it is quite clear from both the House and Senate versions of the bill that they will give Canada an exemption. Of course, I agree with what Mr. d'Aquino and the other members of the Business Council on National Issues just said to you, that if they were not to give us an exemption from the omnibus trade bill, then the whole free trade arrangement would probably fall to the ground.

The question I want to pursue for a moment is, if we did not get this deal, if we did not get an exemption and had to come under the omnibus bill, what sort of situation would we be in? I have heard some members, including yourself, Mr. Chairman, say that they are not opposed to a free trade arrangement but they are opposed to this deal. The question then becomes, would you prefer no deal or some other deal? If you prefer some other deal, the question is, what other deal? What other terms would you have that are not now in this deal?

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As you know, this deal excluded significant areas of the economy. Agriculture, transport, the cultural-communications area--the cultural community of the economy--have been excluded. The dispute settlement mechanism, as you have heard many times, is not a perfect mechanism, but it is a great deal better than no mechanism and a great deal better than being cut to death with ad hockery by congressmen in the US Congress. There are 300 draft pieces of legislation which would affect our exporters that are in the process down there. It is not only in Congress that this happens. It is also in the American judicial system where our exporters can be cut to pieces trying to get their cases argued in the courts and extended over years and years.

The fact is that if we were to have some other deal, I think those who are critical of this deal have to say, "What other deal?" What would you change from the agenda we have had? Would we bargain harder? Did we not have a tough enough bargainer in Mr. Reisman? That is hard to believe. Would we have had a different binding dispute settlement mechanism? The Americans clearly--there would be no deal if we were trying to get the Americans to

agree to a binding system whereby Congress could not reverse it or could not reverse any other treaty.

As you perhaps know, any treaty can be abrogated after six months' notice; any treaty, any treaty can be abrogated. The United States Congress is not going to give up sovereignty any more than we would give up sovereignty in this country. We would not agree to a binding dispute settlement mechanism that abrogated the sovereignty of this country, so to ask them to do something we would not do ourselves is foolish.

Then there is the question that even if we could think of some different terms of the deal that we would want--if we wanted a different deal--would that change the American agenda? Of course not. We have no power to determine their agenda. We would be bargaining with the same people on the same issues. In my opinion, all you can argue about is whether we could have pushed them further in any given direction. As you know, we pushed them to the point where we in fact dissolved discussions in late September and came back to the table after a week's hiatus.

When people say they do not like this deal and would prefer some other deal, I think it is incumbent on them to say what other deal, to say exactly what they would do that was not done.

Perhaps I might turn for a few minutes to the financial services side of the issue. Financial services are not subject to the dispute settlement mechanism. Indeed, the whole financial services deal was negotiated apart from the trade negotiators at the cabinet minister level. It was done between the US Secretary of the Treasury and our Minister of Finance. The reason for that was that Mr. Baker in the United States felt he was not prepared to make commitments on behalf of the United States where he would feel that its financial powers over the economy might be affected adversely, so it was kept close to the vest by the cabinet ministers. However, it was resolved in the same time frame as the rest of the deal.

The fact that there is no dispute settlement mechanism in the case of financial services means that some of the conditions that are going to apply are not yet fully resolved. There are some conditional terms in the financial services sector whereby we are seeking from them some commitments to amend the Glass-Steagall Act, for example, which they have not yet done. The extent to which we liberalize access to the Canadian market is conditional to a degree on greater access of our institutions in their market.

The big thing about financial services that makes it different from merchandise trade is that you are mostly talking about right of access. You are really talking about the authority of your institutions to operate in the other country's host territory on its terms, or on some terms. In that sense, we actually opposed the American approach of what they call "national treatment." In fact, the concept of national treatment is also still employed by the Organization for Economic Co-operation and Development and the Europeans in general. By "national treatment" we mean that your institutions will be treated in the host country on exactly the same terms as its institutions are treated. We said that was not a suitable basis of negotiation because it would not give us symmetrical access in their market. Let me explain that in two senses.

National treatment in the United States means that you can have a branch banking system to the extent that its laws allow, but the federal government in the US does not control that. They abandoned a national banking system for

various political reasons in the 1820s and 1830s and went to a state-controlled system or even a city-controlled system. In the state of Illinois, there are 1,200 banks and a bank in Illinois, until recently, could only be in one location. It could not even be--I guess they could have had a little unit 200 yards down the street, but that was all. They could have no other than one location. That sort of constraint still applies in many American states.

It is starting to break down in the US but the fact is that the US negotiators never had on the table the ability to branch from coast to coast because it is not in their constitutional power, whereas from our side we were giving coast-to-coast access. Because we have a national banking system, that meant we were trading country-wide access against only state access. We said that was not a balanced approach, that national treatment was unfair to us, suitable to the Americans but not suitable to us.

The other element of national treatment, of course, is the functional powers. What can your institutions actually do? Here the big issue in dispute is the fact that we have started moving in the direction of merging commercial banking and investment banking. They have not yet. They have to some extent, but they have not moved to the extent we have done in an almost revolutionary way in the last year or two.

It is worth noting to you that it was the government of this province, this present government and this Legislature, that started to move in the direction of open access of US securities firms to this market. The initial drive and impetus came from this government to open the market to US securities firms to come in here, without constraint and without reciprocal benefits either. When Mr. Kwinter made his famous statement of December 1986, it was not conditional on reciprocal benefits from the US whatsoever. It was just, "You people can come in."

Of course, it has been caught up in federal-provincial controversy and, to a degree, constitutional issues, although it is not really so much a constitutional issue; it is a question of practice. The federal government could perhaps claim power over the securities industry here. Personally, I do not think that is a reasonable or realistic possibility. The provinces in fact do it and I do not think that is going to change. It has been there a long time and it works OK, although it is beginning to create problems between provinces. Basically, I do not think anybody is going to change the fact that the provinces control the securities markets in this country.

Ontario having taken that position, Ottawa had to respond because we were caught in this situation where they were breaking down the barriers between institutions and saying banks could go into the securities business. If banks can go into the securities business, but securities are regulated by the provinces, that means the Ontario government is going to regulate the securities activities of banks, or some of them, while the federal government has jurisdiction over banks.

It has created some interesting problems, not yet wholly resolved although we are getting close to a resolution. There are still some grey areas, but by and large the government of Ontario and the government of Canada have worked out a modus vivendi we can live with and we are satisfied to live with. We are in effect reporting now to two regulators, our Ottawa regulator for traditional functions and the Ontario Securities Commission and the Minister of Financial Institutions for some functions, including things that have to do with consumer protection, which fall under provincial powers to some extent.

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What I am trying to say, though, is that the issue of foreign access here got caught up in this fact that we were starting to mix commercial banking and investment banking. So in the free trade deal there are clauses which mean, in effect, that the government of Canada is going to wait and see whether they give us greater access down there than we have now. That mainly relates to the Glass-Steagall act. The Glass-Steagall Act of 1933 is a piece of American banking legislation which was a piece of fallout from the crash in October 1929. Actually, they had a lot of bank failures after that, and one reason they had bank failures is that they had a rather unsatisfactory mix of investment and commercial banking.

Now there are strong forces in the US Congress to modify Glass-Steagall. Indeed, right now there are various forms of the legislation and they are in this process of negotiation between the Senate and the House. There are many people in the US system now, the regulators--the chairman of the Federal Reserve System, the chairman of the Federal Deposit Insurance Corp. and the Comptroller of the Currency--who want to modify their system. It appears now that the chairmen of the House and Senate banking committees are moving in the direction of modifying Glass-Steagall. But they actually have not done it yet, and whether that happens this year is to me a good deal more problematical than whether they pass the omnibus trade bill. I am not sure how far they will get in 1988.

The point is that the right of access was not given equally. We gave, we believe, more than we got in those terms. We are not so concerned about the American banks getting access here. My members believe they are fully able to compete with the Americans. There are 15 American banks here now. Some of them may get larger under free trade and we might possibly see mergers of some of them--I do not know--but I do not think we are likely to see foreign institutions, whether American or otherwise, capable of broad retail expansions. That would be enormously difficult to do because the margins are so fine. The competition is tough.

Interest rates in Ontario for buying cars and buying houses are lower than they are in California. Although interest rates in the United States are generally lower than in this country, it is the other way around in banking services and interest spreads. I just think it is very dubious that they would be able to penetrate that market to a great extent. In a retail sense they will of course be able to penetrate parts of the investment business, at which they are very good. What we are talking about is the fact that we want to see more access for our institutions down there, and we believe we have more of a bird in the bush for a bird in hand.

However, having said all those things, from the point of view of our narrow financial interest in the short run, we do not think the deal has been very good for the banks. We told the government it was trading us off for other reasons. Nevertheless, having said all that, as you heard from Mr. d'Aquino, Mr. Powis and Mr. Newall earlier, the banks here believe that the deal is in the interest of the country, that it is in the interest of the Canadian economy and, therefore, in the interest of the banks because, of course, as the country goes, so go the banks.

Mr. Chairman, I think that is perhaps a sufficient opening statement.

The Vice-Chairman: Thank you, Dr. MacIntosh, for your very concise comments. There are a number of questions. Before we get into the questions, I

want to acknowledge that my friend Mr. McCague very nicely pointed out to me that I was editorializing with the last delegation. I want to say publicly that he was right. I should not have. I will not--at least, I will try not to, but if I burst a blood vessel, Mr. McCague, it is all your fault.

Mr. McCague: I will burst one right back at you.

Mr. Mackenzie: I think your remarks at the beginning were that Mr. Reisman had done a good job or we should not be challenging his negotiations. I was not following too closely, but you made some remark about Mr. Reisman's ability to negotiate.

Dr. MacIntosh: I said that perhaps we could find a tougher negotiator, but I do not know how.

Mr. Mackenzie: Let me ask your reaction to three or four comments, if I can, from Mulroney and Reisman on US trade laws prior to the agreement: "Mulroney maintained that a deal must include a new regime in trade remedy laws, adding that 'trade remedy laws cannot apply to Canada, period.'" That was April 2 in the New York Times.

Mr. Reisman also maintained, "I would never recommend an agreement to the Canadian government that did not make substantial progress, very considerable progress, in limiting and constraining the United States' unilateral right to use these measures." That was November 12, 1986.

Immediately after the deal, "That this agreement should provide us with an exemption from American trade remedy laws is just the silliest proposition I have ever heard." Simon Reisman, the Ottawa Citizen, October 23, 1987.

Damn good negotiator, or somebody you would not trust as far as you could kick him?

Dr. MacIntosh: Is that a question?

Mr. Mackenzie: Yes. They are very interesting comments from our chief negotiator.

Dr. MacIntosh: You know there is not unilateral American power under the trade remedy arrangements set up under the panel process that has been put in place.

I did not hear the whole discussion you had with Mr. Powis on softwood lumber, but I have talked to the lawyer who acted for the softwood lumber industry on the American side in the two negotiations that went on. We won in the softwood lumber case, of course, in the first go-round. The second time it came up we lost, and he was acting for the fellow who won.

At that time the single person who made the determination under US trade laws was very subjective about it, and we lost the case. There was one fellow who never listened to the evidence at all. He only asked the question: "Are softwood lumber prices lower in Canada than in the US? Are the Canadian exporters selling cheaper than the ones from the state of Washington?" Of course, the answer to that had to be yes, they were, but that is not proof of unfair trade or that they were being unduly damaged.

Mr. Mackenzie: I am not sure. Also, it responds to my simple question, which was: How far do we trust Mr. Reisman in his negotiating for

us? It seems to me that in this interest of openness and fairness we talk so much about, maybe he should have admitted that he did not get it: not to say it "is just the silliest proposition I ever heard," but that he should have achieved the very thing he was saying had to be there.

The Vice-Chairman: I think he is asking your opinion, Dr. MacIntosh.

Dr. MacIntosh: I have known Mr. Reisman for over four years. I went overseas with him, actually, so I am a biased party. I think he is one very tough and very able man.

Mr. Mackenzie: So that is a legitimate comment he made for publication and on the record?

Dr. MacIntosh: I do not have to account for everything he said during the past--

Mr. Mackenzie: Let me ask you about two or three other comments that bother me a little bit. These are excerpts, four very brief ones from confidential briefing papers from US Secretary of the Treasury James Baker and US trade representative Clayton Yeutter, published in Inside US Trade, October 9, 1987:

"The Canadians agreed that cultural measures they take will not impair the benefits we would otherwise expect from the provisions of the agreement. They have also promised to solve Jack Valenti's problem on film distribution within the next two weeks."

"The second one: "We have achieved a major liberalization of the investment climate in Canada and embedded it permanently so that, in the future, Canada's investment policies cannot retrogress to the old policies of the national energy program and the Foreign Investment Review Agency, both highly restrictive and interventionist."

Third: "The vast bulk of US direct investment in Canada will now go forward with no Canadian government interference whatsoever."

Fourth: "Canada renounces the use of the major performance requirements, export commitments, performance requirements, import substitution, local content and local servicing."

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Are those accurate or inaccurate, and what would your comment be to those briefing notes given to the Americans? Would it not bother you a bit if indeed there is any accuracy, or were they not telling the truth to their own people in the briefing notes?

Dr. MacIntosh: You have covered a lot of ground in a short time. I do not think you can really expect me to parse all those sentences sitting here just cold. I think that is a rhetorical and unfair question to ask in that sense. Maybe the American process of negotiating and justifying the deal to their own people is one where they perhaps overstate the case sometimes. So do we on our side. That is what negotiators do.

As you well know, the fact is that we have kept an investment screen. I think it is \$50 million now instead of the former \$5 million, so obviously the statement is inaccurate in that clause.

Mr. Mackenzie: I will leave with one final quote at the same time: "The momentous move towards uniting the two countries economically is very gratifying to me. For more than a decade, my pop urged in his newspapers that Canada become part of the US." William Randolph Hearst Jr., editor-in-chief, the Hearst newspaper syndicate, published in its papers on October 11, 1987.

The Vice-Chairman: I think those quotes are valuable, but I must admit I think it perhaps a little unfair to ask Mr. MacIntosh to respond to them.

Mr. Mackenzie: He outlined some of the concerns of the banking industry, although there were not that many of them listed in detail. Yet, on balance, there is no question it is a good deal for us. I just think there is another component to this whole debate. I guess that is what I am saying.

The Vice-Chairman: Fair enough.

Mr. Kozyra: This question may be somewhat peripheral, but recently the banking industry has taken some lumps, I guess you could say, in terms of major investments such as Dome Petroleum and some of the foreign countries, Mexico and South American countries. I am wondering whether this trade deal would have some protection from situations like that.

A little more specifically and closer to home, on something for northern Ontario--it is somewhat related--recently there was a Premier's conference on entrepreneurship in northern Ontario, and one of the sectors that took a lot of lumps from northern Ontario entrepreneurs was the banking industry, primarily from small businessmen, who felt that they really were not getting a fair deal or that they were being treated with great difficulty when they came for loans. They themselves ended with a quote somewhat similar to Mr. Mackenzie's quotes. They said, "If the banks are prone to risk and lose money, then perhaps they should risk and lose more money in the north as opposed to outside the country."

I am wondering whether the arrangement, as you see it, has any sense of improving the situation, especially as it relates to northern Ontario and the climate. So much of that is resource based, and many of the comments we see related to resource-based industries are optimistic for this free trade deal. Can you speak for the banking community, that its attitude would tend to become more positive in that sense and thereby it would be willing to inject more money into the northern economy?

Dr. MacIntosh: I think the attitude is positive already, so I do not really agree with the premise that it needs to be more positive in terms of its approach to small business. The fact is that the trade deal has nothing to do with the issue of internal credit policies. As I mentioned, we have 15 US banks in my association and 60 foreign banks all together. The American banks are astonished at how far Canadian banks go with small business here. The definition of a small business loan in the United States, if you look at the statistics in their publications as to small business loans, means loans of under \$5 million, while in Canada a \$5-million loan is a medium to large business loan. In fact, if you look at the Bank of Canada statistical summary, the loan classification is: up to \$100,000, \$100,000 to \$200,000, \$200,000 to \$500,000, \$500,000 to \$5 million. Those \$5 million and up are large loans in Canada. In the US they are small loans.

You are dealing with a very different economy, and the American banks do not lend to small business in this country the way the Canadian banks do. I

can supply you with plenty of statistics to show you that. In fact, the 60 foreign banks in this country normally do not go under \$1 million and usually not under \$5 million. There is no way in the world that they are into that small business loan market.

Mr. Kozyra: I guess there is a difference in degree of perception there, because it was almost unanimous at this conference, attended by close to 300 people and several hundred business entrepreneurs. They indicted the banks for what they felt was a very slow response to their needs. Mind you, their businesses are rather small.

Dr. MacIntosh: Perhaps that is a special situation that prompts what you are speaking about, but we do a great deal of collecting of information from our members. We also have a great deal of dialogue with Mr. Bulloch's association, the Canadian Federation of Independent Business, and with the Canadian Organization of Small Business. Mr. Bulloch himself produces a questionnaire on the problems of small business in this country. The last one, which I will be glad to send you, asked small businessmen to list their problems in order of importance. Access to credit was 10th on the list of 10, and that is from his own questionnaire, so I would challenge what you heard as being a valid interpretation of the treatment of small business.

Mr. Morin-Strom: It is not too often that we get the opportunity to read quotes from someone who is actually appearing in front of us. Mr. MacIntosh, you have given us two documents along with your presentation today. One of them has to do with the trade deal, most directly as it affects banks: "Trade Deal Wins Backing of Bankers."

I find it rather fascinating that the other document you have handed out is an article which you yourself wrote for the Toronto Star, entitled "Debate over Free Trade Shows Bias of Left-leaning Media." In this, you certainly are attacking Canada's news publishers in the various media.

The opening line is, "The cultural community and the political left have been reinforcing each other in the debate over the Canada-US free trade deal." The only organization you specifically attack here is the CBC, when you say, "The CBC has been churning out a steady diet of hostile news stories and commentaries by the nationalists, union leaders and the minority of businessmen who are opposed."

You go on to give the reasons for the bias. You say, "First, there is the leftward political bias of the cultural-communications industry." You go on to the second reason, saying, "the media have a small stable of not very good leftish academics who oppose it."

I wonder if you could specify more exactly which media besides the CBC are part of this left-wing bias.

Dr. MacIntosh: As far as bias on the free trade issue is concerned, they are so full of enthusiasm for their own generosity in providing me space in their columns that they cannot believe it but the fact is that, if you are not aware that the Toronto Star has a highly selective approach to the free trade deal in its news stories, then you must be reading some other paper.

Mr. Morin-Strom: What do you think about the Toronto Sun or the Globe and Mail?

Dr. MacIntosh: I do not really think I have to go through all the newspapers one by one. I am making a general proposition about the treatment of the issue by the media in this country.

Mr. Morin-Strom: Yes, you are making a very general one. Does it include CTV?

Dr. MacIntosh: I am not going to get into a badgering game. I have cited a couple of cases. I do not think I have to go through every institution in this country. Do you want to take them from coast to coast?

Mr. Morin-Strom: Does this reflect the opinion of the Canadian Bankers' Association?

Dr. MacIntosh: No, it is my opinion. That is what my byline is on.

Mr. Morin-Strom: Why are you presenting it to us as part of your presentation on behalf of the Canadian Bankers' Association?

Dr. MacIntosh: I thought you might have overlooked it, but I am glad you have read it into the record now.

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Mr. Mackenzie: So am I.

Mr. Morin-Strom: Do you believe the media have a deliberate agenda for stopping this agreement?

Dr. MacIntosh: Do I believe that the media--

Mr. Morin-Strom: That most of the media have an agenda of attempting to stop this agreement.

Dr. MacIntosh: I do not think the publishers have a policy. I think a lot of the people who write in the media are biased on this issue, as on many other economic issues.

The Vice-Chairman: Might I interject here for a moment? Mr. Morin-Strom, I appreciate your questions, but I am just concerned that perhaps, although Dr. MacIntosh did provide us with his arguments, we may be getting a little too side-tracked with the media and his own, if you will, personal point of view as opposed to that of the association he represents vis-à-vis the free trade deal.

Mr. Mackenzie: On the other hand, these were given to us, Mr. Chairman. I see there is a--

The Vice-Chairman: Fair enough, and that is why I allowed some discretion in it, but I would ask for consideration of the members not to needlessly harass, if you will, the witness.

Mr. Morin-Strom: I will stop the questioning, but I do have to put on the record my strong objection to this type of presentation to the committee and strong disagreement with the opinions put in this article.

The Vice-Chairman: Accepted respectfully.

Mr. Pelissero: In your introductory remarks you talked about the agreement excluding certain sectors, and you included agriculture. Could you tell me which sectors of agriculture are excluded that export?

Dr. MacIntosh: No, I do not think I am qualified. By and large, the whole agricultural sector was left out of the deal, with some minor exceptions. I am not a qualified person in the agricultural area but, by and large, the agricultural sector was entirely left out of the deal.

Mr. Pelissero: Was left out of the deal?

Dr. MacIntosh: Yes.

Mr. Pelissero: I am having some difficulty. You are making a statement and then saying that you cannot qualify it in terms of which sectors. I mean, the grape and wine industry is in, the fruit and vegetable industry is in, the supply-managed commodities are part of the deal when they have no business being there because they are meant for domestic consumption versus--

Dr. MacIntosh: I am sorry, Mr. Pelissero, but the whole supply management sector was very specifically left out of the deal. You can turn the words around, but it was left out of the deal.

Mr. Pelissero: No. My question was that you stated in your introductory remarks that the deal, in a sense, was good because certain sectors--and you listed three or four sectors: agriculture--

Dr. MacIntosh: I did not say it was good to leave them out; I said they were left out.

Mr. Pelissero: OK. And my question was, which sectors of agriculture were excluded that export?

Dr. MacIntosh: Almost everything was excluded from the deal.

Mr. Pelissero: That exports.

Dr. MacIntosh: Almost everything, on both sides, in both directions. Agriculture was basically left out of the deal. It says so in the preamble.

Mr. Pelissero: I guess I have to disagree with that viewpoint in the sense that certainly the fruit and vegetable industry was not excluded from the deal; certainly the grape industry was not excluded from the deal; the supply-managed commodities were not excluded from the deal, because in terms of the the dairy industry, certain items were added to the import control list; commodities in the chicken and egg industry, where their global imports were increased to reflect historical importation.

My only point is that some representations are made before the committee in terms of, "Look what we've got because we managed save our supply-managed systems." Recognizing that that is totally consistent with the General Agreement on Tariffs and Trade in terms of a country's ability to supply its domestic demand and that that is what supply management systems are supposed to do--they are not geared to export--my only question was, what sectors, over and above the supply-managed sectors, were excluded that you would include in that list?

Dr. MacIntosh: But the point is that the supply management sector's being subject to the exclusion was to protect us against imports. It was not a question of exports. The whole supply management area, when our prices are anywhere from 10 per cent to 30 per cent higher than American prices, is clearly to prevent imports, not to encourage exports. Perhaps you ought to call some specialists in agriculture, but the fact of the matter is that I have sat in numerous conferences on the issue and it is agreed universally that agriculture was excluded from the deal. You have mentioned a couple of peripheral areas that were not, but you are talking about probably one per cent of the agricultural market.

Mr. Pelissero: In terms of being excluded from the deal.

Dr. MacIntosh: No, of being included in the deal.

Mr. Pelissero: Included in the deal.

Dr. MacIntosh: So 99 per cent of agriculture has been excluded from the deal. You can cite one per cent that may be in it, but it does not change the general proposition.

Mr. Pelissero: I will certainly try to get some figures and forward to you the fact that it is higher than one per cent that is included in the deal, from the fruit and vegetable sector to the two-price wheat system to the grape and wine industry, to the meat industry, in terms of what were included as part of this deal. I can forward you those figures.

Mr. Haggerty: We had a witness here last year appearing before the committee. It was Diane Francis. In her book, Controlling Interest: Who Owns Canada?, she makes a few comments in the direction of the banking industry and the trust companies in Canada. She makes this comment: "Before commercial lending is opened up to trust companies, changes should be made in the way banking operates in Canada. As stated before, boards should not include any customers or affiliates; but, most importantly, banks must be prevented from putting all their eggs into one basket." Of course, she is making reference to the Dome deal. She said, "There must be limits on the size of individual loans and limits on the total amount a bank can lend to any individual client. In the US, for instance, loans to a particular client cannot total more than 10 per cent of a bank's capital."

As you enter the banking institution in the United States, in the commercial sector, will this apply to Canadian banks as they invest in the United States and will it apply here in Canada? Will that same rule apply, that you can lend only 10 per cent to a particular client? You cannot have any more than 10 per cent of a bank's capital. We have seen with Dome that the two banks almost went under.

Dr. MacIntosh: It is true that we did not use to have rules about the percentage of capital that could be lent to a single account, although that has changed in recent years and the present informal arrangement is not over about 15 per cent. That is the rule the individual banks have imposed on themselves in the last few years, but a lot depends on how you define a single account.

In the United States, states such as New York state which have controls of that nature, which have the 10 per cent limit applied to an individual borrower, do not define the borrower in the same way we do. They do not define "bad borrower and its affiliates." If you lend to XYZ company which also has

an affiliate in another business, an affiliate in another business and one in another business, those are all treated separately under US law, whereas they are not here. The fact is that the United States banks give loans to individual borrowers which are as big as or bigger than those of the Canadian banks.

Mr. Haggerty: She goes on to say: "In the United States, securities trade laws"--and we notice that the securities group here is interested in free trade--"require a large cash down payment of at least 25 per cent when shares are bought." She makes a comment about Dome but, under your present assessment of the trade laws, will the banks here in Canada have to apply the same rules as in the United States?

Dr. MacIntosh: Our securities laws are similar to those in the US but they are not the same. Incidentally, Dome now appears to be in the process of making a full recovery. Diane Francis wrote that before, so I do not think she is as bright as she thought.

Mr. Haggerty: I thought it was bought out by an American outfit.

Dr. MacIntosh: She had the genius of hindsight, which people often have.

Mr. Haggerty: I thought Dome was being taken over by an American group.

Dr. MacIntosh: Dome is being taken over by Amoco, yes, but at the time she wrote that--

Mr. Haggerty: That must be part of the free trade deal.

Dr. MacIntosh: --she and other journalists were saying it was a total write-off. I am glad we have my bankers and not the journalists managing these accounts.

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Mr. Haggerty: She did not say that, but she did go on to say, "Here we allowed Dome to pay \$4 billion for an oil company that could not afford it with what amounted to a Visa card." In other words, I suppose she was saying they had a credit card with a couple of banks and they got by with it.

The Vice-Chairman: Is there a question flowing from that, Mr. Haggerty?

Mr. Haggerty: The question was in relation to the rules that apply to American banking and securities. What effect will it have on Canadians? If they are investing here in Canada, are the rules going to be the same across the border?

Dr. MacIntosh: Any foreign institution operating in Ontario has to observe Ontario laws, just as we would have to observe their laws down there. That is a given.

Mr. Haggerty: But surely in the free trade agreement, when they said there was going to be an open door here for both industries to move about from one area to another, there have to be certain regulations applied to free trade in this area. If you are going to go into this area here, you are going

to have 50 states that you are going to have to deal with if you want to get into it for investment purposes. If you have to go through all that red tape, is that not going to be a delay in investment, whereas they can walk into Canada and it is pretty well wide open, it is a one-way street again?

Dr. MacIntosh: No, our security laws are made, in the case of this province, by the government of Ontario and the Ontario Securities Commission. Any foreigner has to accept those regulations as the ones under which to operate here. The regulatory regime in this country will remain in place as it is now. The regulatory regime in the United States will also remain in place. If they change, they will change because there are internal domestic reasons why there is a desire to change it. But it will not change because of the free trade deal itself.

Mr. Haggerty: But there are questions of federal jurisdiction and this area of provincial matters, you might say, that are the province's sovereign rights. That apparently is being wiped out. We have seen it in energy. Now we are going to see it in the matter of the financial institutions too.

Dr. MacIntosh: I am sorry, sir. The provincial powers in the securities market remain exactly as they are. There is zero impact that I can think of on the securities powers of the province of Ontario in this free trade deal.

The Vice-Chairman: Indeed, the provincially chartered trust companies remain the same.

Dr. MacIntosh: Yes, I should have said all financial institutions that come under the provincial authorities.

The Vice-Chairman: Dr. MacIntosh, may I ask you a question that I think deals with free trade to some extent. Has the banking association taken a position--and forgive me if it has; I am not aware of it--on the federal government's decision vis-à-vis the declaration of international banking centres and the the exclusion of Toronto?

Dr. MacIntosh: Yes and no.

The Vice-Chairman: That is what I thought.

Dr. MacIntosh: You must understand that I have some members located in Montreal and Vancouver.

The Vice-Chairman: I appreciate that. You also have some in Ontario.

Dr. MacIntosh: Oh yes, a great majority in Ontario, that is true. But from a national point of view, all we have said is that we are not opposed to the legislation if we are no worse off tax-wise than we are now. We never sought that legislation. It was not our idea.

The Vice-Chairman: I realize that.

Dr. MacIntosh: We never have made any effort to suggest that we will get any tax benefits out of it. The notion that we are going to get tax benefits is nonsense. We get none. You appreciate that, from a national point of view, it is not something on which we have a whole lot to say.

The Vice-Chairman: Being a politician, I appreciate that very much. Any other questions from the committee?

Mr. Neumann: I was a little surprised to hear your comments about agriculture. We have received a letter from a very high ranking representative of Dare Foods who indicated the negative impact that free trade would be having upon Dare Foods' production in Canada. I believe it was sent to the chairman of the committee; it was addressed to the federal member of Parliament and copied to the provincial.

It outlined a number of points that governments should keep in mind in the future in their legislation and policy directions under the free trade agreement in order to allow Canadian companies to compete. One of them was that there should be no further advances in social programs. The one that caused me to raise the question with you was that we should be phasing out supply management in agriculture because--the very point you raised--prices are higher in Canada and the prices which a food processor, such as a cookie or biscuit manufacturer, would have to pay for the input product would be higher in Canada. Therefore, he is going to be outcompeted by his American counterpart or he is going to have to consider moving to the US where he can get around supply management.

You can see that while you might technically say agriculture is left out, that Canadian agricultural producers are going to be hard pressed to supply or to manage on a reduced market when their bulk purchasers in the food processing industry are going inevitably to be looking to the United States because the tariffs are gone. The processed food and manufactured food will be brought in tariff-free. The input costs will be much cheaper in the US. While you might say agriculture is left out, the farm industry, the farm producers are going to be hard hit.

Dr. MacIntosh: I only meant they were left out with regard to direct negotiations of imports and exports. You are probably right that the food processors are affected by the deal. The one you cited was a food processor rather than a farmer.

Mr. Neumann: Yes. But food processors buy their products from farmers.

Dr. MacIntosh: Yes, they do. That is correct.

Mr. Neumann: I am sorry I was not here to hear your entire presentation. I do have a question related to the role of the banks in Canada in lending money to assist multinational corporations in buying out smaller plants, the takeover game, the takeover business. Some material that came to light some years ago in Canada showed that Canadian banks played quite a role in this regard. We have an agreement, which removes most of the restrictions from foreign investment in Canada, which opens up Canadian firms to possible takeovers by larger American companies. Does the Canadian banking business welcome this as an opportunity to service this new clientele?

Dr. MacIntosh: The banks are generally in favour of the lifting of the investment constraints that have been there, yes. I am generally in favour of the removal of the national energy program and the rest of it, very much so. I might remind you also that we have financed takeovers in the other direction too. There is a big one being discussed in the paper in the last two days where a very major American department store is being taken over by one of our entrepreneurs. I imagine that is being financed by Canadian banks.

Mr. Neumann: You are talking about Campeau Corp.

Dr. MacIntosh: Yes.

Mr. Neumann: I find it quite interesting you would raise that, having heard Mr. Kozyra talk about the concern among small business in Canada about the treatment they get from the banks. I certainly have heard that myself in attending different seminars. It might be they are comparing what they have with what they would like to have. I remember sitting down at a meeting with Mr. Campeau and he indicated that he was a very small businessman and that he was treated rather roughly by the banks.

Dr. MacIntosh: I would challenge that because he dealt first with my bank or the bank I was then in and he borrowed his first money when he was an unqualified clerk working in a government department to build his first house. He was treated enormously well from then till now by that bank. He would not be where he is today if it had not been for his bankers. Probably no American banker would have done as well by him.

Mr. Neumann: That is probably true. That is another concern I have. Do you see American banking institutions making any major inroads in Canada in terms of buying out Canadian banks?

Dr. MacIntosh: They could not buy Canadian banks because of the 10 per cent limit. That is impossible. In terms of expansion of their function, I would imagine that a few of 15 that are here now will get larger and will probably select certain parts of the market. You must realize that the American banks that are here now are almost entirely in what is called the mid-market. They are in the area of \$5 million to \$15 million in loan size.

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They are not in the small business market, as I said earlier to Mr. Kozyra. Perhaps you were out then. The small business market is served by the Canadian banks in this country, by the big six in fact. The other 60 banks are simply not in that market. They do not have the branch representation, the breadth, the small branch operation that goes out into rural parts of the country. They simply are not there and, as far as I can see, have no intention of going there, nor, I might say, the big conglomerate fellows who were so anxious to get banking powers in this country, the owners of the major trust companies. They have not the slightest intention of going out into Carrot River, Manitoba, and so forth and dealing with the little business firm out there, which the big six do.

Mr. Neumann: So we are very fortunate that the Canadian government has acted to preserve Canadian banks; otherwise, small business would be in very sad shape.

Dr. MacIntosh: That is absolutely right.

Mr. Neumann: So a national policy then is beneficial to the country.

Dr. MacIntosh: Yes.

Mr. Neumann: In banking, but not in energy.

Dr. MacIntosh: Oh, no, it is an open door. If you are leading to the argument that it is a closed door, it is not. We are opening up with the

Americans. Any American bank can do anything a Canadian bank can do under the free trade deal. I am saying I do not think they will, not when it comes to the small business or the retail market.

Mr. Neumann: It is riskier lending to small business, is it not?

Dr. MacIntosh: Over the past 40 years, yes.

Mr. Neumann: As these foreign banks come in and lend exclusively to larger business and hence make perhaps greater profits and they have more security, will the Canadian banks be tempted to make fewer loans to small business, that kind of loan?

Dr. MacIntosh: You can only judge by what has happened since 1980. Since then, we have had 60 foreign banks come in and we have had all the trouble that we all know about with some of the big ones. If you look at the data on the rate of growth of business loans to firms where the line of credit is under \$200,000, the rate of growth in the last five years has been somewhat higher than the rate of growth to large firms or medium ones.

Mr. Neumann: I am not surprised at that in the kind of economy we have.

The Vice-Chairman: A final question, Mr. Neumann?

Mr. Neumann: You are anxious to wind this up, are you?

The Vice-Chairman: They were good enough to give us an extra 15 minutes.

Mr. Neumann: Do I have time for one more?

The Vice-Chairman: Yes.

Mr. Neumann: I will ask a question I have asked of some of the other witnesses. It relates to your prediction, representing the banking industry, as to where the Canadian dollar is going to go over the next few years with this free trade agreement.

Dr. MacIntosh: If I give an opinion, it will be a personal one and not the opinion of the industry, because there is no such thing as an opinion of the industry.

The Vice-Chairman: Duly noted.

Mr. Neumann: That is fine. Give your opinion as someone heavily involved in banking.

Dr. MacIntosh: I think it will slowly strengthen.

Mr. Neumann: Do you see the potential for larger energy sales and the encouragement for an inflow of capital with the freeing up of the markets as contributing factors to that?

Dr. MacIntosh: Yes. For example, energy covers more than oil and gas.

Mr. Neumann: Absolutely.

Dr. MacIntosh: Québec-Hydro has just concluded a deal for \$17 billion with New York. I find it incomprehensible that the Premier of Manitoba would oppose a deal where the province is exporting to the midwest American states about \$120 million a year in net exports from Manitoba Hydro with prospects for that being much larger. Without the deal, we are in danger of facing protectionist forces in those states to block exports of Manitoba Hydro. How anyone could want to block this deal when it will protect the prospect of exports of electricity there is beyond me.

Mr. Neumann: So it will help our balance of payments in a positive sense and help push the Canadian dollar to a stronger position.

Dr. MacIntosh: Yes. That is why I think the dollar will tend to strengthen.

Mr. Neumann: That is good, because we want to see a healthy Canadian dollar, but there is another side to that question, is there not? Being a former mayor quite recently of the city of Brantford, I know a number of industries that are located in our community did so with an eye to the American market. They wanted to take advantage of the substantial differential between the American dollar and the Canadian dollar to strengthen their ability to export to the United States. At what point do I have a legitimate concern then that these industries might start to lose some of their market as the dollar goes higher? At what point would this become a danger to manufacturing in Ontario?

Dr. MacIntosh: I would repeat more or less what Mr. Powis said to you earlier. As our exports strengthen and other things being equal, that would slow down our export markets. But other things will not be equal, I do not think. I think you are going to hear from the gas industry. I probably should not get over in their territory at all, but I think over time the prospects for exporting natural gas to the United States are very good, even against a rising Canadian dollar, because they are going to have a shortage of gas after the so-called bubble passes through and they will need our gas, as they need our electricity.

As an economist, what I am saying is that the American demand for some of our resources will be inelastic as to price. In other words, a higher price will not dissuade them from buying our exports.

The Vice-Chairman: Thank you, Mr. Neumann. Dr. MacIntosh, having worked for a trust company myself, what do they say--I am sure you have heard it--"Old bankers never die; they just lose their interest."

On behalf of the committee, I want to thank you, Dr. MacIntosh and Mr. Carson, for being indulgent enough to give us an extra 15 or 20 minutes and also for presenting the brief and answering our questions. I thank you both very much.

Dr. MacIntosh: Thank you, Mr. Chairman, for your courtesy and giving us the time.

The committee adjourned at 4:26 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

MONDAY, FEBRUARY 1, 1988

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Carrothers, Douglas A. (Oakville South L) for Mr. Neumann

Dietsch, Michael M. (St. Catharines-Brock L) for Mr. B. J. Nixon

Fleet, David (High Park-Swansea L) for Mr. Kozyra

Sterling, Norman W. (Carleton PC) for Mr. Villeneuve

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Ontario Trucking Association:

Cope, Raymond R., President

Bradley, David H., Director, Economics and Executive Assistant to the President

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Monday, February 1, 1988

The committee met at 2:06 p.m. in room 151.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: We will get started now. This afternoon we had been scheduled to hear from the Wine Council of Ontario at two o'clock and the Consumers' Association of Canada at three o'clock. Apparently coincidentally, both called on Thursday and indicated they were not interested in speaking, at least at this time.

Mr. Ferraro: Who was that, Mr. Chairman?

Mr. Chairman: The Wine Council of Ontario and the Consumers' Association of Canada. In both cases, we are attempting to have some input from those organizations later.

Mr. Carrozza indicates he has attempted to get at least four other groups to come today. One tentatively said it would and reneged at the last minute.

We also contacted the Ontario Trucking Association--Mr. Carrozza did and I did, personally--but because of Mr. Cope's previous commitments the association will not be able to be here before four o'clock. The issue late this morning became whether we would have the meeting start later than now. I decided we would start the meeting now, not in the hope that we would just carry on our own discussions for two hours, but that perhaps we could solve a few things.

First, I will report to you in an ad hoc way about the trip Mr. McLellan and I took to Washington. We are going to prepare a more detailed report which will be available to you later, but perhaps I can tell you a little bit about some of the feelings I had there.

Remember that this was a meeting of the American Bar Association, in which they were looking at how to handle this agreement. I would say the atmosphere in Washington is that there is an assumption this agreement will be passed by Congress. There does not seem to be any debate on that issue at all. I did hear some concerns about it on the part of Americans which I had not heard up here. They were understandable concerns, I suppose, when you look at it from their point of view.

For instance, in the energy sector, the energy producers were concerned that, in their view, some of their markets might be taken by Canadians and they did not feel they had been consulted prior to this going into the agreement, which I suppose adds to the speculation that this was a decision made at the last minute.

That leads me to think--Excuse me for jumping all over the place a bit, but I am just getting some things off my chest.

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We had a luncheon address from Peter McPherson, who is the deputy secretary of the Department of the Treasury. He indicated that he and Baker and a few others were the people who were there in that last room on the Saturday night, October 3.

He indicated that it very much was a case of putting a lot of things together at the last minute as a result of some last minute phone conversations, that the final agreement really did get kind of made between 10 to 12 and five to 12, that there were people who were contacted with walkie-talkies next to the President's office and next to the offices of the congressional committees that had to have the information tabled and that all occurred with about five minutes to spare.

Then he indicated that as early as Sunday afternoon there were new arguments arising on the definition of culture, which, as you know, is simply indicated in a very brief way in the agreement. Other arguments were to spring up in other areas shortly thereafter, and it was quite clear from his address to us that the agreement was really written subsequent to October 3.

The other area, and it is kind of an interesting thing, I suppose, where job losses are obvious in the United States is one we sloughed over a little bit, the pipeline of gas and oil from Alaska into British Columbia. In the view of the people who man the tankers that carry that oil down the west coast of the United States, through the Panama Canal and up to New York, it will put them out of jobs and there will be about 80 people out of work.

There are just a few little things like that that I am sure are not going to upset very many people. So it will be passed and I heard opinions--I heard an opinion privately that I respect to the effect that the omnibus trade bill may not ever reach a vote, the thinking in the United States now being that the matter is changed, the attitudes have changed a great deal with the October stock market crisis and there is a feeling on the part of a lot of congressmen that they do not want their names attached to something that would be similar to Smoot-Hawley, etc.

I heard contrary opinions to that, the other view being that so many congressmen have so many pieces of the action now in that bill that satisfy voters back home that it is bound to go to a vote and in some views bound to pass just because it has that momentum. That debate will occur this month, so we will know fairly soon.

Carl Beigie of Dominion Securities was there and was introduced as the most eminent economist in Canada. It is interesting that he pointed out that, in his view--I just want to make sure I have his quote right. I do not have it down, but it is my recollection that he was talking about the federal finance committee report that suggested there would be a gain of 120,000 jobs. He said that 120,000 jobs within five years is within the margin of error that would be excusable. I take that to mean it could be 240,000 or it could be zero.

A lawyer from Detroit was discussing it with me later and said, as he put it to me: "Why, that is blood and flesh he is talking about, man. That's not just numbers." That was an interesting comment.

Another thing that I learned that is of interest and I think committee members will be interested in knowing it is that there is a law called, I think, the management entrenchment act in Ohio in which that state basically

has a Foreign Investment Review Agency. It does investment reviews, especially when there is a takeover bid.

While the wording of the act is such that it does not talk about foreign investment and therefore would not be caught on paper by any free trade agreement, in actual fact they only bring the act into effect when they are dealing with foreigners. They brought it into effect with the attempt by a British company to take over Goodyear and they are bringing it into effect now because Robert Campeau from Canada is attempting to make some purchases in the state of Ohio.

Just generally speaking, I got a feeling that the American trade lawyers are extremely ecstatic about the amount of work they are going to have. That would seem to go both ways.

Mr. Pelissero: I would like a chance to respond to that.

Mr. Chairman: Yes, I thought perhaps that was an amendment to Mr. Pelissero's suggestion that they will all be customs workers. A lot of them are going to be trade lawyers. I guess one of the things we have to do is see that some of the people who are laid off get--

Mr. Mackenzie: Do we owe that much to the lawyers?

Mr. Chairman: Get their skills--no--retrained as trade lawyers. I do not know. Do you want to say anything Ray?

Mr. McLellan: What I am going to do is a fairly longish report, because I think we had in the order of 24 or 30 presenters and I think that their comments were extremely valuable.

What they did was make an effort to go through the document on a section-by-section basis. I think it is very worth while for me to take the time, over the next few days, to highlight their concerns, their questions, and their deliberations and comments because I think what has come out of this first couple of weeks of our looking at it is that there are a lot of grey areas, a lot of areas that seem ambiguous and areas that do not necessarily hang together very well. So, there are a lot of very, very significant questions.

I think that we should take the time to wade through those, clause by clause. I am going to try to do that and reflect their comments in a fairly thorough way, I hope.

As the chairman has said, the trade bill before the Congress right now is not necessarily going to be a significant problem. I think the people who spoke, the lawyers from both Canada and the United States, expressed the concern--on the Americans' part most significantly--that the US comes out of this current negotiation looking very positive vis-à-vis the current General Agreement on Tariffs and Trade discussions and negotiations. They want to look upon the free trade agreement as a significant model that works so they can show the world and the European community that discussions between the two countries have worked out. So, they have a great deal at stake in this document, to make sure that the thing hangs together.

Another point that some people will be concerned about is that the statement basically outlined the fact that this document legitimizes what some people see as historic trends in US-Canada economic relations, so they feel

that this free trade agreement has legitimized that process.

As I started off to say, I think that American lawyers see it as a document that is certainly going to bring a lot of work their way. One of the questions that was discussed quite a bit was the issue of subsidies. Some lawyers feel that the subsidy question is not that significant, that it can be dealt with over the next couple of years in a fairly straightforward way. Others are very, very concerned with exactly what the subsidy question does or does not mean, so that is certainly a point of discussion.

I think generally that they have very high expectations and very positive feelings. I think the Canadian ambassador to the US certainly endorsed and supported the content of the agreement. He did address the question of provincial jurisdiction and emphasize the point that it is a document that falls under federal jurisdiction, the international trade and commerce aspects of it.

I think that probably summarizes that. As I say, I will go on to do a detailed report, section by section, and hopefully we can discuss and look at the specific clauses and questions raised.

Mr. Chairman: Earlier than that, Leonard Legault from the embassy seemed to say that the issue of the acceptance of this agreement was settled in Canada but not in the United States. That is from the Canadian embassy. I was not even a registered delegate at that stage. Mr. Pelissero.

Mr. Pelissero: Just a question around provincial compliance. You touched on it towards the end. So there was very little discussion, certainly in the presentations to the American lawyers, of the fact that it is all but accepted up here in Canada and it is really now up to the United States, or what?

1420

Mr. Chairman: I thought those two presentations stood out like sore thumbs. I do not think there is an awareness on the street in the United States, but I thought in that room among 200 or 300 lawyers, many of whom were Canadians, but most of whom were Americans--and a lot of the presenters were Canadians--there was very much an awareness of the Canadian concern, and those presentations, as I say, stood out like sore thumbs.

Most people were saying it was a big issue in Canada. In fact, Marc Lalonde, who is now a famous Montreal lawyer, was there and said it was not going to pass the Canadian Parliament, almost as an incidental aside, and then went on to say how he was going to deal with it as a lawyer. His prediction was, as I recall it, that there would be an election first and there would be a minority government and it would never pass.

I think there was a great awareness on their part that there are a lot of problems in Canada, and the provincial matters were discussed by two lawyers, one from the United States and one from Canada, the Canadian lawyer in fact admitting that he was benefiting a lot from the input he got from Scott Fairley. I think they are the same firm, Gowling and Henderson, and are saying a lot of things that Scott Fairley said to us about the constitutional problems here.

Mr. Pelissero: One last point in terms of the grey areas. In reading in the media in the last couple of days certainly around textiles and, in

today's Toronto press, talk about the auto parts, wanting to see the 50 per cent North American content bumped to 60 per cent, did you get a feeling at all that there is the kind of latitude in the agreement that the legal people figure they will be able to put it in this time around or are they saying, "Allow for future considerations at some point in time"? Or was that discussed at all?

Mr. Chairman: I do not think there was a feeling that there was a legal way to do it. The administration people were saying that the agreement is finished. That is obviously something Congress will want to talk about, and there is going to be pressure--

Mr. Pelissero: And the timing, the June deadline?

Mr. Chairman: But then there is all kind of talk about what subsidies will be considered in five to seven years and so on.

Mr. Pelissero: What about the timing in terms of viewing it in June versus March or April in terms of the free trade agreement? Was there any discussion?

Mr. Chairman: Nothing more than what we read in the papers. I have the feeling it is more likely to be considered in June.

Mr. Pelissero: OK, thank you.

Mr. Mackenzie: I want to be clear on the statement you made earlier. Was it Gotlieb, the ambassador, in his presentation, who was forceful in terms of outlining that it was federal jurisdiction and in fact the jurisdiction area was already decided?

Mr. Chairman: Actually, I was having a session with Hal Lucius, who used to be with the consul general here, when Gotlieb was speaking. I did not hear him. I thought he would be one of the least edifying commentators, just as far as giving information is concerned. But Mr. McLellan was there.

Mr. McLellan: As you say, you were not there at the time. The ambassador did mention the question of federal-provincial jurisdiction in the area. I do not have the text of his presentation, his talk, before me, but he did refer to federal-provincial jurisdiction in the area and referred to the treaty-making powers as well as the international trade responsibilities falling under federal jurisdiction. He went on to talk very briefly about it, but my recollection and my notes indicate that is in fact what he was commenting on.

Mr. Mackenzie: By implication, there is nothing the provinces could do.

Mr. McLellan: Following Mr. Gotlieb's discussion, as the chairman said, we had a talk by Mr. Fisher, who is with Gowling and Henderson in Toronto. It was quite appropriate that he should follow the ambassador, and his talk, as the chairman said, drew on a lot of Mr. Fairley's comments, as outlined before this committee. I think his paper is probably worth looking at and it is enclosed in the text. Some of the members may want to have a look at it.

It is a fairly lengthy document which outlines probably 75 per cent of the talks. I think it might be worth while for members to look at Mr. Fisher's

comments. His comments certainly stressed the need for provincial concurrence in the free trade agreement and the importance of provincial jurisdiction in areas such as natural resources, public insurance, small business services, etc.

Those two speeches, as I say, are back to back, and there was not a great deal of comment following those two documents.

Mr. Mackenzie: In other words, you are saying Fisher seemed, to some extent, to contradict Gotlieb?

Mr. McLellan: It was certainly my impression that he countered his comments.

Mr. Mackenzie: It would not do us much good speculating but it would be interesting to know why Gotlieb was being so positive in terms of the federal-only jurisdiction.

Mr. Ferraro: He just has to look at his paycheque.

Mr. Mackenzie: It is not always the role of the ambassador, unless he is strictly a flunkey. The feeling also--and I think you commented on it earlier, Mr. Chairman--among the Americans was that the deal would pass in the United States House. You did not get any ground swell of opposition at all?

Mr. Chairman: Not at all. I have mentioned the only two negative American thoughts that I heard. I may have heard some others that I was already aware of but that just have not struck me now, but the feeling I had, both in what I heard from the stage and in private conversation, was that it was not going to be a big issue.

I rather expect we will hear the senators and congressmen doing a lot of posturing prior to a vote being taken. It is election year down there and this is a good area for them to do some posturing in but, in the final analysis, I do not think anyone is worried.

Mr. Mackenzie: I think it is useful, even if slightly partisan, to reflect back on the sessions we had where we were told--and I once again go on Durenberger as much as anybody because I think he was one of the more positive ones--that no way could this go through, and then there was his famous, or infamous, quote to us, "Unless, of course, you give us a deal that is so good we can't refuse it." That is exactly why there is no opposition. As far as the Americans are concerned, it is an excellent deal.

Mr. Chairman: We will proceed to prepare some more information. Mr. McLellan will do the slogging, and maybe I will do a little editorializing, to the extent that a chairman can. From what I have gathered, this document--

Mr. Ferraro: Will yours be a dissenting report?

Mr. Chairman: No, I don't think so.

This document has a lot of good material in it. Most of the speakers did not stick to these texts but submitted these papers in advance. I am trying to recall whether, just on the constitutional thing--perhaps this is another conversation I had with someone--it was Fisher who was suggesting that an omnibus bill in the Canadian Parliament would be the best tactic for the federal government to take to avoid provincial nit-picking.

Mr. Ferraro: I may have missed it because it is Monday, but were there conclusions voted on or acted upon by the American Bar Association?

Mr. Chairman: No. Basically, it was an educational project. Our bar association does them too whenever there is a new law. For instance, when the Family Law Act was passed, the Ontario branch of the Canadian Bar Association had seminars and so on to teach. This was what this was. A lot of it was fairly technical, but I suppose trade law tends to be terribly political in a sense anyway, so a lot of it was not that way. But there were no conclusions drawn.

Mr. Ferraro: No resolutions made.

Mr. Chairman: No great summaries, no resolutions, nothing like that.

That being concluded, the only other thing I think we need to do before adjourning until four o'clock is to discuss with some finality--I can think of two things, in fact. I think we actually decided prior to now to have the clerk talk to Mrs. Oberstar about going to Washington on either March 21 or 28. I guess you are asking that we make a choice between these dates, or do we just make it clear that--

1430

Clerk of the Committee: No. If the committee could direct me to which areas they wish to concentrate on when they are in Washington.

Mr. Chairman: Good idea.

Mr. Pelissero: What happened to the week of March 7?

Mr. Chairman: We could certainly go that week, but Mrs. Oberstar is not prepared to organize it for us. We could go under other circumstances, perhaps with the embassy, or we could find another consultant, but I think there was a view, based on the successful trip of last April, that she does a pretty good job.

Mr. Mackenzie: I think you should stay with her, Mr. Chairman, and I think you should look at the week of March 21. Personally, I would not mind having off the last week before the House goes back.

Mr. Chairman: That is my preference too. Perhaps we could put that to her as a preference. I think the other thing she would like would be areas of concern.

Clerk of the Committee: Specifically, the areas you wish her to concentrate on and the matter on which you wish to talk to these individuals. For instance, if you wish to talk to Senator Bentsen, the chairman of the finance committee, and if you can give me some specific ideas of what you wish to talk about: the omnibus bill, free trade or more concentrated areas, whatever.

Mr. Chairman: I wrote to her with some ideas. Did I give you a copy?

Clerk of the Committee: No.

Mr. Chairman: Sorry. We can certainly correct those ideas as a result of this discussion.

We may have a much better idea by the end of March what is happening to the omnibus bill. That may not be as important.

Mr. Morin-Strom: I think we should focus, as we did this last session we went down--which was certainly well organized and we got to meet quite a wide variety of people through Mrs. Oberstar--on trying to meet as many actual congressmen and senators as possible, dealing primarily with those sitting on the main committees which will be looking at the trade deal. The clerk should confirm that with her. As I recall, last time it was the ways and means committee in the House of Representatives and the finance committee for the Senate.

We should attempt to meet a wide-ranging selection, including, as I said, both Congress and the Senate, but also both Republicans and Democrats, and a mixture of some who may be particularly viewed as protectionist on some of the key issues that face Canada. I suggest, if possible, meeting with someone such as we did last time, Senator Evans of Washington, who is particularly concerned about lumber and the forest sector. We have heard that some of their concerns in lumber may extend into pulp and paper in the future.

I have potential concerns about the steel industry. We talked to Senator Heinz in terms of the steel industry. We talked to some representatives from Michigan last time in the auto industry, a selection of some of these key industries here in Ontario. I think we know from experience now that the senators tend to have a focus on their particular industry. We talked to Senator Matsunaga, who was on the finance committee last time. He was a free trader when it came to everything except for sugar. As long as we did not want free trade in sugar, he was happy about free trade. I think the same applied to Senator Heinz when it came to steel and so on. Those are just a few suggestions.

Mr. Mackenzie: I am not sure how we would go about focusing this, but I would like to have a bit of a discussion with some of their people on just what they see as subsidies, because I think that is going to be a major part of the battle if, God forbid, we ever enter into this agreement.

Mr. Chairman: Both legislators and administration perhaps.

Mr. Mackenzie: I think you might have to on that. I am not sure whether it is worth beating to death the provincial and state jurisdiction issue, but I sense an effort to fudge it over in this country and I am not sure what the thinking is down there.

Mr. Chairman: I am trying to recall whether I heard that Senator Evans is either retiring or has retired, but we will check that out.

Mr. Morin-Strom: Someone from one of the western lumber states would be of interest.

Mr. Ferraro: I think it is important that if you are going to go down to Washington--I agree, go through Jo Oberstar and try to meet with those people. I am just wondering whether, unlike the other trips down to Washington that we have had in the last two and a half years, it would not be interesting, and indeed important perhaps, for us to try to meet with some American union representatives and/or a private law firm, for example, that is on retainer. That could be easily arranged by the Ontario government. I am thinking in a labour context per se. I would be interested to hear what the rest of the committee thinks of that. That is one perspective we have not touched on.

Mr. Chairman: I did hear the comment that there were a lot of situations where unions in the United States were not happy with the agreement. I should add that was not particularly news to me; it was just adding to my previous reporting. Any reaction to that? That is a different perspective than we had before.

Mr. Morin-Strom: I think that is a good idea, industry representatives potentially as well, although I think the prime focus should be on government. But perhaps the United Auto Workers might be particularly interesting because of its being separated from the Canadian Auto Workers.

Mr. Ferraro: Yes, that would be interesting. We get both perspectives up here, but if we go down there, we just get a governmental perspective.

Mr. Mackenzie: The AFL-CIO, because it has a whole legislative staff as well as lobbying staff, would be the people to talk to in the labour movement.

Mr. Ferraro: I agree.

Mr. Mackenzie: I am sure your consultant would know that. If not, certainly it is easy enough to contact the AFL-CIO.

Mr. Chairman: And the UAW?

Mr. Mackenzie: I have no objection.

Mr. Haggerty: Do you think Lynn Williams would make any comments, Bob?

Mr. Mackenzie: I know what his position is, if that is what you mean.

Mr. Haggerty: It seems to me that he would.

Mr. Chairman: A producer's, a corporate interest's or a union's view of a subsidy today is a congressman's view tomorrow. It makes sense.

Clerk of the Committee: Mr. Chairman, we need a motion to hire Jo Oberstar and a motion to go to Washington.

Mr. Chairman: You want them in that order?

Mr. Mackenzie moves that we hire Jo Oberstar to facilitate our trip. Any discussion?

Motion agreed to.

Mr. Chairman: Do we need a motion to go to Washington? I thought that had already been passed.

Mr. Mackenzie: I thought it had as well.

Mr. Ferraro: Yes, I thought we had dealt with that already.

Mr. Mackenzie: If you need a motion, you have it, Mr. Chairman.

Mr. Chairman: All right. Any discussion?

Mr. Ferraro: Does that mean the GATT is out?

Mr. Chairman: Not necessarily. It may fill our plate for the next several months, though. Any discussion?

Motion agreed to.

Mr. Chairman: Any other business anyone wishes to discuss until 4 p.m.? The Ontario Trucking Association will be here then. Mr. Ferraro.

Mr. Ferraro: Just briefly, Mr. Chairman, through you to the clerk and our researcher, I am wondering whether we could have some background information on the Washington trip well in advance of the trip. We got some interesting stuff on one occasion, I recall, but I think we got it as we were boarding the plane.

I do not mean to imply that they did not do their job, but if we can get it well in advance, then we could really prepare ourselves, for example, on the American system, any and all articles and where they are, what is hot and what is not, who is on what committee and so forth.

Mr. Chairman: That is a good idea. We already have some fairly recent information on the omnibus trade bill, but perhaps we can update it more from a political perspective than an economic one.

Any other discussion? We will see you at four o'clock then.

The committee recessed at 2:40 p.m.

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Mr. Chairman: I have a few announcements while we are waiting to start, just for the benefit of those who are watching on television. This committee, as things presently stand, will not be on television the rest of this week. We are going to be pre-empted by the select committee on constitutional reform, which is going to be discussing the Meech Lake accord and should be very interesting as well.

For those of you who have been following the committee, I thought it might be valuable to go over the agenda for the rest of the week, because it is a much tighter agenda that we have today. Unfortunately, up until today, it has not been terribly interesting. It will be from here on in, I am sure.

The rest of the week's agenda will take place in room 228. If you have an opportunity to come visit the committee, we would welcome your joining us in room 228 at Queen's Park in Toronto.

Tomorrow, Tuesday, February 2, at 10 a.m. we will have a delegation from the Board of Trade of Metropolitan Toronto; at 11 a.m. the Retail Council of Canada; at 1 p.m. the Attorney General (Mr. Scott) speaking about, particularly, his speech to the Canadian Bar Association--Ontario of December 15, 1987; at 2 p.m. the Automotive Parts Manufacturers' Association of Canada; at 3 p.m. the Ontario Chamber of Commerce; at 4 p.m. the Canadian Manufacturers' Association. You can see that is a pretty hefty day.

Wednesday, February 3, we will be hearing from our own Ministry of Consumer and Commercial Relations concerning a number of items which would appear to be on the provincial agenda; at 11 a.m. the Coalition Against Free

Trade; at 2 p.m. the United Steelworkers of America, District 6; at 3 p.m. the Ministry of Northern Development, and at 4 p.m. the Canadian Institute of Chartered Accountants.

On Thursday, February 4: at 10 a.m. the Ontario Federation of Agriculture, at 11 a.m. the National Action Committee on the Status of Women, at 2 p.m. the Motor Vehicle Manufacturers' Association, at 3 p.m. the Ontario Federation of Labour, and at 4 p.m. the Council of Canadians. If you can join us at all on those days, please, feel free to come.

This afternoon we welcome the Ontario Trucking Association, which has a brief that has already been delivered to members at their offices. We have other copies of the brief if you wish it again today. We welcome Raymond Cope, the executive vice-president of the association and David Bradley, who is the executive assistant to the president.

Mr. Bradley: That is right. Ray is the president.

ONTARIO TRUCKING ASSOCIATION

Mr. Cope: We appreciate the opportunity to appear before this committee to express the views of the Ontario Trucking Association and its members as to the free trade agreement between Canada and the United States.

It has been some two years now since the government of Canada and the government of the United States got serious about looking into the question of free trade. At the outset, when the decision to explore this agreement was announced at the Shamrock summit, our first reaction was one of apprehension. It was certainly easier for the truckers and the association to see the downside of a free trade agreement than it was to see the upside.

Our thinking at that time was that a free trade market could lead to stiffer competition for Ontario manufactures and producers and the downfall of the branch plant economy here in Ontario. Of course, if that were to happen, then there would be less goods available for shipment from producing plants here in Ontario and a lesser role for the trucking industry to play.

We also saw that in a free trade agreement there would be more competition from US carriers in Canada. We saw not only a diminished market, but a greater number of carriers competing for the market that remained, so our outlook at that time was one of apprehension. However, as time went by, we dialogued with other industries, we paid attention to what was being said and we suddenly understood that there were some producers and manufacturers in Ontario who saw a better future in a free trade agreement. There were some who saw the other point of view.

We started to see that these views tended to offset one another, and so we thought that from that point forward we should concentrate on what the trucking industry's view would be as to trucking in respect to free trade. We not only looked at it as Ontario truckers, we consulted and dialogued with our sister associations right across Canada. We came to the view that the trucking industry should press for free trade for trucking in a free trade agreement. We felt that if there is to be free trade, it should be fair. That would mean that if the Canadian market was going to be opened up to US carriers, then the least the Canadian carriers could expect would be reciprocal opportunities in the United States.

On January 1, 1988, the federal government deregulated transportation.

That is, it made it easier for carriers to get extraprovincial operating authorities than heretofore. They simply have to prove they are fit in the sense that they are insurable and that they have a competent safety record. Carriers now can get extraprovincial operating authorities fairly easily. That extends not only to carriers who are resident in Ontario or Canada, but carriers from the United States as well.

The entry into the market as between points in the United States and points within Canada has now opened easy access to carriers of both nations, and there is a balance. There is a quid pro quo at the national level. We now start to focus on--and what the Ontario Trucking Association has been focusing on since the outset of the free trade investigations--what is going to happen at the provincial level.

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We find that within the United States there was an attempt in the free trade negotiations to secure a free trade agreement even at the local level, at the state and the provincial level, but that was unobtainable. Certainly, there was a fair amount of resistance within the United States to deregulation at the provincial level. This opposition was not only to be found in the trucking industry, of course, it was also found in the other transportation modes. In the final instance, Simon Reisman reported to us that, though they had tried to get some kind of agreement on free trade for trucking and for transportation, that was unobtainable.

Of course, as truckers, we have taken note of the fact that 43 of the 50 states of the United States regulate interstate trucking. That is, to get operating authorities within those 43 states you have to apply and you have to pass whatever entry barriers there are in those 43 states.

As we look at some of those states, states that Canadian operators might be interested in, such as Michigan or Ohio or Illinois, or even going down as far as Texas, we find these states are highly regulated. There is very little opportunity for a Canadian carrier to apply in those states and get operating authority. It is theoretically possible--it is on the books and you have to prove public convenience and necessity and things of that kind--but to get an authority is long and hard and very costly.

Of the 43 states, I would say that their regulation ranges from moderate to restrictive and there is little sign that very many of those even have deregulation under consideration. There are a few, but I would say that is probably five or six out of the 43.

So in the foreseeable future, the vast majority of the states in the United States are going to regulate trucking--that is, they are going to control entry into operation within their jurisdictions fairly tightly--and that is going to leave Canadians in the same position they have been historically.

That being the case, then we have to focus back on what we are doing here in Canada. At the present time, there are three provinces in Canada that have taken steps towards deregulation. Alberta has long been deregulated. More recently, New Brunswick and Prince Edward Island have taken steps in that direction. Quebec is seriously leaning in that direction. They are taking some of the early steps towards mapping out their particular program.

However, we find that British Columbia, Saskatchewan, Manitoba, Nova

Scotia and Newfoundland have no early intentions of deregulating. Thus, within Canada we are going to have at least half of our country still regulated at the provincial level.

In Ontario we have made various submissions to the Minister of Transportation on the subject of deregulation in a free trade context. The position we have been taking is that if we are going to open up Ontario to American truckers--that is, to allow a Michigan trucker to operate and carry goods, say, between Windsor and Toronto--then we would expect that the Ontario truckers who have an interest would be able to get reciprocal opportunities to haul goods, say, from Detroit to Flint. We just think that is fair, it is quid pro quo, it is even, and we think that is what we should hold out for. We do not think we should give away Ontario to American entrepreneurs if we are not given the same opportunity for Ontario truckers. To do so would be a very one-sided free trade arrangement.

We brought this to the attention of the Minister of Transportation and we have sought to correct this situation by having him propose an amendment to his Bill 88, which is the provincial deregulation bill that was given first reading in December. We have asked that the bill be given a simple amendment to provide a reciprocity clause, which would mean that deregulated, easy opportunities for licences would be opened up to Ontario carriers and to carriers from any other jurisdiction which has equivalent easy-access opportunity within that home jurisdiction, whether it be another Canadian province or a US state. We think that would be a free trade arrangement that would be equitable as between provinces in Canada and states within the United States. To fail to do so would, in our view, be inequitable.

The response we received from the Minister of Transportation, based on the advice of some of his experts, is that to put a reciprocity clause in Bill 88 would be unconstitutional in the sense that it would discriminate against US carriers or discriminate against certain carriers as opposed to other carriers.

We have tried to suggest to them that there will be discrimination in the other sense if he does not do it. If he does not have a reciprocity clause in the legislation and opens up Ontario to other carriers to come in, then Ontario carriers will face discrimination in the sense that their markets will be invaded by carriers from other jurisdictions and they will not have the opportunity to try to expand their market in these same other jurisdictions.

Again, the Minister of Transportation has talked about the Constitution, and his advice is that the Constitution would find it discriminatory to provide that reciprocity clause, which, I guess, leads us to wonder whether the Canadian Constitution is there to protect Canadians or Americans. As we look at the free trade agreement right now, we are ready for free trade. We want it. When it comes to the question of deregulation providing for increased competition, we are ready for increased competition. The only thing we are looking for now is fairness, a level playing field.

In terms of what to do, we set this out in the conclusions and recommendations section of our submission. We really are looking to the government of Ontario to do three things. One is to provide reciprocity in market access. This goes back, again, to inserting within Bill 88 a reciprocity clause, which would not be taking anything away from anybody; rather, it would be granting access to the new fast-track deregulated legislation to all Ontario-based carriers and all carriers from other jurisdictions, whether in Canada or the United States. All carriers, from

fast-track legislation, should be given fast-track opportunity within Ontario. We think that would be fair and we think it would have to be constitutional as we would view it. As I said before, how can the Constitution be there to protect Americans but not Canadians?

A couple of corollary requirements, so far as we are concerned, to make free trade in trucking work and to give the Ontario carriers equal opportunity, would be to narrow a couple of the financial problems that the carriers face through deregulation. One is that compensation for the loss of value of operating authorities should be provided by the government of Ontario.

When the US deregulated its trucking industry back in 1980, it saw that as it deregulated, the value of operating authorities on the balance sheet went from whatever it was down to zero and that the carriers were going to sustain that type of balance-sheet loss. That type of loss is important to their ability to deal with bankers and get loans and have lines of credit. The government of the United States allowed those carriers to write off their asset value against income tax otherwise payable over a five-year period. We think that is a good model and we would like the government of Ontario to look at how to deal with the loss of value of operating authorities that will be sustained in Ontario by deregulation at the provincial level in the same way.

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Tax reform is another issue that people are focusing a lot of attention on. We think the adjustments at the federal level are going to go some way towards narrowing the tax gap currently faced by Canadian and Ontario motor carriers; but we are looking for comparable action at the provincial level so that when Canadian carriers are competing head to head on the same traffic lanes with American carriers, their tax burden and the American tax burden will be as close to identical as is reasonably possible.

We refer in the final section also to the question of fuel costs. We have brought that message to this committee on other occasions, but it does remain that fuel costs in Canada and Ontario are higher than in the United States, not only by reason of the fact that the dealers' pricing is higher than in the United States, but on top of that in Canada go taxes, which are significantly higher, particularly at the provincial level as compared to the state level, all of which lead to a greater burden for Ontario carriers than for US carriers.

Those are the three points we wish to bring before this committee. We will be happy to answer any questions that our presentation may have given rise to.

Mr. Sterling: I guess it is sort of as a related issue, the way your issues come into the debate, but you say the minister has told you the cannot put a reciprocal clause into Bill 88 because of some constitutional argument. Has he provided you with any kind of legal opinion on that or has he just stated that in a meeting?

Mr. Cope: No. I have received from officials of his ministry the viewpoint of a constitutional lawyer on a question that was framed and put to that constitutional lawyer. Of course, it depends a lot on the way you put the question. The question that was put to the constitutional lawyer was kind of a loaded question, and we felt that kind of loaded question was bound to get the response it got.

Mr. Sterling: I see.

Mr. Cope: I do not have the language right in front of me, but it was predicated on, can you discriminate against US carriers? It brought the notion, in terms of constitutional law, that to discriminate directly would impede trade between Canada and the United States and would not therefore be constitutional.

We feel that had the question been put to the same constitutional lawyers as: "We are not going to discriminate against anybody; what we are going to do is to open up new fast-track access to Ontario licences for certain carriers that meet easy access requirements in their home jurisdictions," that kind of question might have drawn another kind of response.

Mr. Sterling: The only thing I can relate it to, where we have a number of reciprocal agreements in the United States, is in relation to matrimonial situations. We have agreements--I do not know with how many states, probably 30 or 35 of the 50 states--whereby you can take an order in Florida, for instance, and use it here in prosecuting in the courts of Ontario.

If you use that argument, it seems there still is an analogy between the two kinds of situations. What we have done by entering into that agreement with Florida is to say to Florida people who find themselves chasing somebody for matrimonial support payments that they can do it. But if they come from, let us say, another state, which does not have that kind of agreement, they do not have that same right. I do not see the difference in terms of the argument you are putting forward.

Mr. Cope: That is a very interesting analogy. One of the things we are now doing is trying to build up a file of other "for examples" that would bolster our case on this question of the constitutionality issue. Certainly, when Bill 88 ever gets before a committee, we will be there with a lot of information. Hopefully, the problem will be resolved by amendment action before then.

Mr. Sterling: I would certainly appreciate any legal opinions you do get in terms of a favouring of your position, so that when it is debated in the House on second reading, I will have the privilege of putting those into the debate.

Mr. Cope: We will certainly bring to the attention of every member of the Legislature the best arguments we can marshal and the best evidence we are able to uncover on this issue.

Mr. Mackenzie: First, if I can, I would like to go back to some of the arguments that were made by the members of the trucking industry before this committee back a year or a year and a half ago, or whatever it was. One of your delegation of three at the time--I think there were three vice-presidents from three of the trucking companies--raised with us the question of branch plants potentially moving out. He used the figure of as many as 500 he had talked to that might not consider staying here in the event of a free trade agreement. I take it that is no longer a concern of the trucking industry.

Mr. Cope: I would not say it is no longer a concern. As I said at the outset of my presentation, at one time it was quite clear to us there were certain companies that were going to be hard hit by a free trade agreement. We were able to recognize those quickly and see the impact on their production, the jobs in their business, the amount of business they do with the trucking

industry and the number of jobs in the Ontario trucking industry. We were able to do a quick count, but then as the free trade debate ran on, we started to hear some people come forward and say, no, it is going to be good for their business and good for their industry. We decided we were not the experts in this whole area of all the other industries in Ontario and we were rather going to let them put their case before competent bodies and the truth of that would flow out of that.

Mr. Mackenzie: Another argument they made fairly persuasively at the time as one of the reasons they could not compete--and I might just say I want to deal with it in a moment--was that if we were going to have free trade, we had to have deregulation. That was an argument they made very clearly with us.

One of the problems was in access for Canadian companies to the US market. The unfairness was that most of the Canadian market was within 100 miles of the US border, literally coast to coast, and there were not always the transfer facilities, or storage facilities or other facilities that were necessary. In trying to access the US market, the Canadian companies were dealing with--they gave us the number of cities of a million people or more. I forget the number now, and it could be 1,000- and 2,000-mile runs, and also the facilities that might be needed to drop off stuff along the way or what have you. They were simply not in a position to compete in that kind of a situation. Is that also now by the boards or is that still--

Mr. Cope: No, those facts remain. It is very much easier for US carriers to tap and exploit the plums in the Canadian market than it is for Canadians to do the same in the United States. I think the numbers that were used in that situation were something like three cities in Canada with a population of a million or more and 43 within the United States.

Mr. Mackenzie: That was the figure, yes, something like that.

Mr. Cope: And, of course, the three big hubs in Canada are very close to the border. There are a few hubs in the United States close to the Canadian border, but there is a whole rash of them that are remote. It is very difficult for a Canadian trucker to exploit the market in Los Angeles or Houston or New Orleans.

Mr. Mackenzie: Would not the state regulation that we are still up against have added to this problem? I think they made that case as well.

Mr. Bradley: Yes, it does, in the sense that the economies are not there in terms of meaningful penetration into the US. As you drop off freight, let us say on the way to Los Angeles, your trailer becomes emptier and emptier and emptier, whereas if the states had opened up their markets you would have the opportunity to pick up and deliver within those states.

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Mr. Mackenzie: If I can go then to the other side of the coin, as one of the stronger groups opposing free trade, almost the final argument made at the time, which you obviously have changed slightly, was that if we have it, we have to have deregulation. That led to quite a debate in this committee. I should have dug up the old Hansard, the old copy of the debate, but one of the things they pointed out to us was that the three-or-so-year battle over deregulation--a lowering substantially, is the way they put it, of the prices in the United States--was to the benefit of the shippers, but an awful lot of the smaller companies could not compete and were gobbled up by the bigger ones.

I know a question I asked specifically was what happened to safety and health measures in some of these trucking companies and they admitted that particularly in the medium-size companies, this tended to go under as they tried desperately to compete and stay in business. It was one of the first things that would go. In the long run, what happened was they ended up with a loss. I think the figure was either 53 or 57 per cent of the unionized drivers, mostly Teamsters, were out of work. There was a substantial reduction in the number of companies, but what really caught my eye was that the final testimony was that some three years later, after all of this had happened and the shakedown had taken place in the industry, the prices of shipping the goods were right back up almost to where they had started three years earlier.

I am wondering whether this is what we can expect in terms of any major deregulation here in Canada as well.

Mr. Cope: You have touched on a lot of points.

Mr. Mackenzie: Only because they were the crux of their case.

Mr. Cope: Let me start with the safety issue. Certainly, it has been a major concern of the Ontario Trucking Association and the other trucking associations in Canada whether or not there is going to be deterioration in safety by virtue of deregulation. Deregulation, of course, will bring into business a lot of people who have not been able to get a licence heretofore. Some of those may be good entrepreneurs who would operate safely and soundly, but some of them would be carriers that might operate unsoundly. Our investigation of what happened in the United States turned up the California experience and the California experience was that deregulation led to a deterioration in safety in that state that was significant.

One of the things they are attempting to do in Canada that will be better than the approach taken in the United States is to develop and implement across Canada a national safety code. A national safety code will consist of 15 or 16 programs and the implementation of these programs will make sure that the drivers adhere to sound hours-of-work regulations, that the equipment is maintained to a certain standard and that the drivers meet certain requirements, things of that kind.

Mr. Mackenzie: You do not feel those are at risk with a comprehensive bilateral free trade deal? I raise that with you specifically because we have had the Canadian Labour Congress point out in releases that one of the things it is really concerned about is the recent accomplishment of the workplace hazardous materials information system program, which is sort of standard safety and health and toxic substance legislation right across this country. They are now questioning seriously whether that will be a viable option under a free trade deal.

Mr. Cope: We certainly are tracking that and are very conscious of it. We do not want to open Canada, not only to US truckers but also to unsafe US truckers, which is the big worry. Our first line of defence is to have this national safety code out and in place and on time. Right now it is dragging right across this nation. Ontario happens to be in a good position to meet the requirements of a national safety code early on, but the other provinces are not.

Mr. Mackenzie: The US might not have to either. That is the point I am making on the deal.

Mr. Cope: That raises the question of how to deal with entrants into

Ontario that are not up to Ontario standards. If you are going to allow carriers from other provinces in Canada that are not up to standard in those provinces, what do they do about the American carriers? That is a matter of concern.

I will just turn for a minute to the other question of the impact on labour.

Mr. Chairman: Before you do that, I am just wondering, what is the WHMIS program?

Mr. Mackenzie: It is the federal safety and health negotiations that have been carried out for almost three years now to establish some standards in toxic and other matters on a country-wide basis in every province in Canada.

Mr. Cope: I just turn to the question of the impact of deregulation on labour. It is quite clear that deregulation has not been a good thing from the teamsters' point of view. Certainly, only the companies that get their costs down to the lowest possible levels are going to be able to survive in a deregulated state, and companies are doing that by steering to the least-cost labour setup they can get. That means renegotiating their contracts with unions, establishing other subsidiary companies that have no union involvement or using owner-operators who are at the mercy of those companies. That is just the price society has to pay for deregulation.

Mr. Mackenzie: Clearly, part of the price we are going to pay then is going to be very clearly aimed at those who have, in many cases, fought long and hard to establish the regulations and the decent rates. Workers are going to pay a good deal of the price in the trucking industry, if this comes about.

Mr. Cope: That is unfortunately true.

Mr. Mackenzie: The position previously, as I say, was no, unless we have total deregulation. Officially, now you are telling us the position is yes, with deregulation? Officially, what is the position, in spite of these reservations?

Mr. Cope: What is our position on deregulation?

Mr. Mackenzie: No, on the free trade agreement. Yes, as long as you have deregulation?

Mr. Cope: No, our position on the free trade agreement is we want a free trade agreement in trucking.

Mr. Mackenzie: Are you satisfied with the agreement?

Mr. Cope: The free trade agreement does not give it to us. Deregulation will give it to the Americans but will not give it to Ontarians.

Mr. Mackenzie: OK. That is what was not clear. So you have not yet accepted the free trade agreement?

Mr. Cope: The free trade agreement does not cover the trucking industry's requirements. If Ontario proceeds to deregulate the trucking industry in Ontario, we will have the worst of all worlds.

Mr. Mackenzie: One final comment that I want to raise is that the

current bills before the Ontario Legislature, as far as we are concerned--I am being biased now--are clearly deregulation, but up until fairly recently, or the last time I heard it raised in the House, the government was arguing that they were not deregulation bills. As a matter of fact, the Ministry of Transportation was being a little bit critical of our calling them deregulation bills. I notice that you called them, right off the bat, deregulation bills. Is that what you see them as?

Mr. Cope: Yes.

Mr. Morin-Strom: I would like to thank Mr. Cope for making his presentation to the committee today. Your position is, however, still quite a confusing one with respect to deregulation and free trade. You seem to be supportive of moves towards deregulation and free trade in trucking in total, but you say the combination of what we are going to get, when we get the free trade agreement and we get the deregulation bills in Ontario, is the worst of all possible worlds. What is the alternative? What should we as a committee be recommending to Ontario for action?

Mr. Cope: What I hope you would recommend is to take up on a suggestion we put before you, that the government amend Bill 88 to provide a reciprocity clause and to allow carriers from US states and from other Canadian provinces to enter the Ontario market where those same states and provinces allow Ontario carriers to enter their market.

Mr. Morin-Strom: Is that going to protect all the jobs in Ontario?

Mr. Cope: It is going to protect some; it is not going to protect all. Certainly, there are going to be some jobs lost in Ontario as US carriers come in here, but to the extent that some Canadian carriers here can expand their business, they can maintain on their payroll some people who would otherwise be unemployed.

Mr. Morin-Strom: Under the current scenario, if the free trade agreement goes through and Ontario proceeds with this legislation, as written, which certainly the current government has the number of seats to be able to do, what is going to be the result in terms of numbers of companies in the trucking business in Ontario and the number of employees in the industry a few years down the road?

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Mr. Cope: I say that literally dozens of companies in Ontario will cease to do business, will go out of business. Either they will go bankrupt, they will close their doors, or they will merge with other companies. I think that is quite clear. That has happened in the United States; it happened in Australia. I do not think it takes a magician to see that coming.

There certainly will be some jobs lost. These jobs, I guess across Ontario, would number in the hundreds. They will not all be lost because, to the extent that an American company comes in here and does business in Ontario, it will have to hire drivers in Ontario and it will be the same Ontario driver who has lost his job with a Canadian company. However, some jobs will move from Toronto to Buffalo, say, jobs in marketing and computers, bookkeeping, the management type jobs. The bigger companies in the United States will find it easier and possible to integrate those within their home companies, so there will be a net loss of jobs to Ontario.

Mr. Sterling: May I ask a supplementary? You are saying that most of the cause of that is not going to be the free trade agreement, but Bill 88. Is that a fair comment?

Mr. Cope: That is right. The free trade agreement, as it is now written, is silent on transportation. Transportation does not change one whit under the free trade agreement from what is now written. We had hoped it would.

Mr. Morin-Strom: I would like to ask, regarding the number of jobs, how many jobs there are in the industry today--certainly you must be one of the most knowledgeable people in terms of making a forecast of what is going to happen--and what is your best estimate as to what percentage of those jobs will be lost?

Mr. Cope: As we look at the trucking industry in Ontario, between the for-hire and the private, the gross figure is probably something in the order of 100,000. I would say the number of jobs that could be lost ranges into the hundreds. I would not think it would be as much as 30 hundreds, but it might be as much as 20 hundreds, which would be two per cent.

Mr. Morin-Strom: In the US, what kind of percentage of jobs were lost? My impression is that the figure is a much higher percentage than that.

Mr. Cope: Lost in deregulation?

Mr. Morin-Strom: Yes, in the United States.

Mr. Cope: We have to compare apples and oranges. You asked me a question relating to Ontario deregulation.

Mr. Morin-Strom: Yes, and now I am asking you--

Mr. Cope: If you had asked me what was the loss of jobs with deregulation at the national level, I would have given you a different answer.

Mr. Chairman: I guess that is the question he is asking you now.

Mr. Cope: With deregulation at the national level, the exposure of jobs in Canada lost to US carriers numbers in the thousands. The difference is that when you deregulate at the national level, you lose driver jobs, because the drivers who can cross the border can be American or Canadian. When you are in transborder service and you create a free trade or deregulated market there, the jobs can swing from one country to the other.

When you deregulate at the provincial level, there are some jobs protected by immigration laws. You cannot use an American driver in domestic service between Windsor and Toronto. You can use an American driver in international service between Detroit and Toronto, but not between Windsor and Toronto. The jobs that would be exposed at the provincial level would be a smaller group. The jobs that are mobile, the accounting, the marketing, the computer, the maintenance planning, those kinds of jobs can be lost.

Deregulation creates another set of reactions. In the United States hundreds of companies have gone out of business since deregulation. Of course, the traffic has not disappeared; the traffic is still being carried by someone else. What is happening down there in the less-than-truckload field is that the three big companies are getting bigger and huger and are becoming giants. The three big companies have grown from something less than 20 per cent of the

market and are already, after eight years, up to more than 40 per cent. I predict that in a decade they will be at 75 per cent, which is the same way it went in Australia. You are going to see the emergence of trucking giants.

In Canada we have a dozen big companies in the LTL field. Within a decade that 12 will be reduced to about three. The only thing I do not know is what the names of those three will be. Will they be good old Canadian names or will they be American names?

Mr. Chairman: To clarify your answer, your answer is basically dealing with the deregulation bill. I take it you are saying the free trade agreement per se, as it stands now, is not going to have any effect on the industry.

Mr. Bradley: No direct effect.

Mr. Cope: That is correct.

Mr. Chairman: Would you care to say what effect it might have had if the transportation annex that was attached to the elements of the agreement had stayed in place?

Mr. Cope: People have confused what that transportation annex did. What that transportation annex would have done, had it been part of the agreement, was to have made the free trade agreement, from our point of view, a terribly lousy agreement, even worse than it is now, because not only would it have given the trucking industry no free trade, no opportunity to access the US market, but it would have tied the hands of the Ontario government ever to change the situation. Now that they have burned the transportation annex, we have breathed one sigh of relief, but only one sigh; it just means the Ontario government's hands are not tied for all time. Still, the free trade agreement fell short of securing access to the US market on the part of Canadian truckers.

Mr. Mackenzie: You cannot escape the fact, though, that the original argument that was given to us has not really changed in the generic sense. A free trade deal is only good if we have deregulation, whether they want deregulation or not, so I am not sure you can say the free trade deal is not the problem then.

Mr. Chairman: I do not think you are quite saying that, because when I said that the answer was, "No direct result." Perhaps you want to expand on that.

Mr. Bradley: It did not change the status quo. Things are the same. Forty-three states remain regulated, and there is no onus on Ontario to deregulate. If Ontario deregulates now, it will create a situation of unequal access. The states do not have to open up. We will be opening up our doors.

Mr. Morin-Strom: Finally, when it comes to our recommendations on the free trade agreement and the Ontario government's position on the free trade agreement, do you think the free trade agreement should be approved or fought?

Mr. Bradley: We think it should be improved. We would like to see--

Mr. Morin-Strom: I mean "approved." If the agreement is the way it is now, as I understand it, we have a choice of ratifying and implementing it

or not ratifying it.

Mr. Chairman: And no in-between.

Mr. Cope: I guess I would have to say that the Ontario government should approve it if it scraps Bill 88. If it is prepared to go ahead with Bill 88 in its present form, then I think our preference would be that it would go against the free trade agreement. The two are inextricably linked.

Mr. Mackenzie: Mr. Chairman, I am beginning to smell something here. Now I know why the government has been pushing Bill 88 even though it knows it is wrong. Are you going to drop it at some stage along the way?

Mr. Haggerty: I want to address my comments to Mr. Cope and to Mr. Crosbie's letter. It does not have a date on it, but it is the Minister of Transport. He goes on to say that the free trade agreement contains numerous benefits for Canada's transportation companies. He goes on to the fourth paragraph, and he says: "As a consequence of the United States maritime industries' refusal to accept the obligations of the agreement, it was agreed that the transportation services would not be covered by the agreement. This means that Canada retains all its transportation regulatory flexibility, and transportation industries will benefit from the economics of the agreement."

Then Simon Reisman's letter goes on to say, "With respect to trucking, we have been unsuccessful in opening an intrastate market." Then he goes on to talk about some other modes in that letter of November 23, 1987. He said, "It prevents new discrimination," so apparently there is discrimination, regardless of the fact that Bill 88 has been introduced in Ontario. According to what the Minister of Transport says, it was turned down because the United States maritime industries did not accept it. That means if they turned it down on that side, it applies across the whole of the United States border.

Mr. Cope: I understand it was the maritime interest that led them to go in that particular direction. That did not do us much good.

Mr. Haggerty: What were the reasons for it? How would it affect Americans then?

Mr. Cope: The maritimes?

Mr. Haggerty: The United States maritime industries.

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Mr. Cope: The maritime lobby in the United States was concerned about giving Canadians access to shipping between two points in the United States. They wanted to retain that traffic for a whole host of reasons: for commercial reasons, for political reasons, for all kinds of reasons.

Mr. Haggerty: So the spinoff really then comes into the tractor-trailer or the rig on the roads and applies to that too? I guess it would be from the American side to the Canadian side, would it not?

Mr. Bradley: Our understanding of what happened was that the marine shipping industry in the US would not go along with deregulation, for lack of a better word, of their industry, and the Canadian negotiators said: "It is all or nothing. Either you do regulate transportation across the board or we take it right out of the free trade deal." That is what occurred.

Mr. Haggerty: So the Canadians took it out? It was not the Americans, then?

Mr. Bradley: It is because of this problem in the maritime industry, but the Canadian negotiators wanted it to be an all-or-nothing deal. They did not want us to enter into an agreement with the maritime industry excluded from it. However, I do not think that means the individual US states had agreed to deregulate intrastate truck traffic--in fact, far from it.

Mr. Haggerty: If you are dealing with transportation, a lot of material moves on boats and vehicle transportation too. I mean, you have got these containers that come in from the United States. Baltimore is one of the biggest centres down there, and it is brought up by transport from Baltimore into Ontario. So you can see the interconnection between the two there, and I suppose if they said they did not want any part of free trade--that is, the United States transportation sector on the east coast, and the east coast plays an important role in Ontario--

Mr. Bradley: You see, the Americans, you could say in a sense, got everything they wanted in terms of trucking anyway without the free trade deal. The government of Canada deregulated--

Mr. Haggerty: Let me get that now. You said they have got everything they wanted in the free trade deal?

Mr. Bradley: The American trucking industry, in their presentations to Congress and trade officials in the United States, wanted to see Canada open up its transborder trucking market. The government of Canada did that on January 1, 1988, with or without a free trade deal. What the American truckers also said was, "Look, we do not want you opening the intrastate markets to Canadians." It seems now that, by virtue of the federal deregulation legislation on January 1, they got the transborder market. If Ontario goes ahead now, they are going to get this added plum of access to our market, and they still are able to protect theirs.

Mr. Cope: They get it for nothing.

There is one other link--

Mr. Haggerty: Yes, but why would you say you support free trade, then, if the federal government says, "We have got this piece of legislation and it opens the door to all American trucking industries that come into Canada," cross-wise; then you say, "We are all in favour of it," and yet you cannot get an agreement on the other side?

Mr. Bradley: You see, what we are saying here is, if the agreement is good for our customers, the people who manufacture and produce goods within this country and within this province, the deal will be good for us. John Crosbie says it is going to be great.

Mr. Haggerty: That is what he says in there, but you are telling me it is not now.

Mr. Bradley: The Ontario government says that manufacturers are going to go out of business, and we are sort of caught betwixt and between. We do not know; we do not have an economic model to tell us. All we can tell you is that if this agreement is good for our customers, if it increases the amount of goods flowing across the border, then we can try to compete for that

traffic. But if we are not presented with the opportunity to compete within the United States and if the US carrier can take away traffic from us here, we lose. So you can in a sense say, all of the things being equal in what the direct economic impact is going to be, that the indirect impact of Ontario's deregulating is really what is key to us here.

Mr. Cope: There is one other linkage, you know, that is interesting in the free trade arrangement. The Canadian airlines would have liked to have had opportunities to exploit the US market. For example, Air Canada would have loved to have been able to fly passengers from Chicago to Los Angeles. In return, you know that they could open up Toronto to North Bay for American airlines. Of course, the Americans would not want any part of that kind of deal because the Canadian market would not be so exciting for them as the American market would be for Canadians. So quite apart from the maritime agitation, there was a little bit of pushing and shoving on the airlines' side behind the free trade negotiations. Those were two things that led them to shy away from dealing with the trucking issue.

Mr. Haggerty: Mr. Mackenzie raised a question about safety on the vehicles on the American side. I understand that there are new regulations coming forward now that will apply to truck safety on the highways on the American side, which may mean some improvement here. I think the areas the federal government in the United States was looking at were basic standards for state licensing, tougher drunk driving sanctions, and front brakes on heavy trucks will have to be operable by February 26.

Mr. Cope: Those are a few good programs. We think they are wise in coming forward with those.

Mr. Haggerty: Are all vehicles here in the trucking industry--are the front brakes hooked up? Are there front brakes on the trucks?

Mr. Cope: If you operate into the United States, by law you have to have your front brakes hooked up. Within Canada that is not a requirement at this present time.

Mr. Haggerty: In Canada, but it is not in the United States either, I do not think.

Mr. Cope: Yes, it is--front brakes on tractors operating within the United States.

Mr. Haggerty: That applies to the Canadian rigs then?

Mr. Cope: Yes.

Mr. Haggerty: Oh, it does. But the law does not apply to the United States then, though. Why they want to bring in the legislation now is to cover that loophole in that they must have their front brakes operating on their rigs.

Mr. Cope: Mr. Bradley has just reminded me it is a question of timing. This requirement is just coming into play here these first two months of the year. I have forgotten on what--

Mr. Bradley: February 1988.

Mr. Cope: This is February 1988 so, by law, that is a requirement now.

Mr. Bradley: I think I could pass along to you as well some discussion they have been having in recent days. Both the government of Canada and the provincial governments have been raising a national safety code as the remedy for any safety ills that might be a byproduct of deregulation here in Canada. I think it is safe to say, from the standpoint of the trucking industry in Canada at this point in time, that we have anything but a uniform national safety code. What we are getting is a balkanized approach with provinces running off in different directions, bringing in different rules and different regulations, and that leaves us very concerned.

Mr. Ferraro: I want to thank the delegation for its presentation. I have had the pleasure of getting a lot of correspondence from the Ontario Trucking Association and indeed have spoken to many of the members.

Gentlemen, while your comments on free trade are interesting and certainly helpful, it is safe to say, I think, as indicated by someone already, that your main concern is with Bill 88, which of course to some degree is a different can of worms, if you will, if you want to look at it from your perspective. I am sure the OTA is going to make a detailed and thorough presentation, assuming it goes to committee after second reading, because we have only had first reading, but I am assuming that is a given.

Mr. Cope: Basically we will be coming before that committee with one issue.

Mr. Ferraro: And that is?

Mr. Cope: The same issue we are here on today.

Mr. Ferraro: The same issue you are here on today. OK.

Mr. Cope: Fairness.

Mr. Ferraro: On that one issue--well, before I get to that one issue, the OTA--and I appreciate its concerns about deregulation or reregulation--has one point of view. I can also tell you, gentlemen, and I am sure you can appreciate this, that I have had a lot of smaller individuals, who want to get into the trucking business or want to expand, who are giving an opposing point of view from the standpoint that they are saying it is long overdue. I suspect the federal government is saying the same thing.

Mr. Cope: Can I ask a question? Are any of them saying that they want to see the Ontario market opened up to American carriers without giving them the same kind of opportunity in the United States?

Mr. Ferraro: No, but I think, in fairness, what Bill 88 is doing is also addressing another problem, which you have not addressed today but which nevertheless is part of the intent, I guess, of Mr. Fulton's bill.

Mr. Cope: We are not in opposition to deregulation. Go ahead, deregulate tomorrow.

Mr. Ferraro: Let me ask you, on your one main concern--and correct me if I am wrong, because I am not as expert on it as you are--my understanding is that the proposal in Bill 88 is that if indeed an American firm wants to operate in Ontario as a hauler, a trucker, whatever, it has to have corporate citizenship in Canada and indeed operate with Canadian drivers and under the same rules and regulations as the 900 members you represent now.

Is that right or wrong?

Mr. Cope: Yes, that is correct.

1700

Mr. Ferraro: OK. My understanding as well, Mr. Cope--you may have had some discussion--is that coincidental with Bill 88 is a bill to enhance the Highway Traffic Act. We cannot do much about all of Canada; we can be concerned only about Ontario's regulations

Mr. Cope: Long overdue.

Mr. Ferraro: Right, but I understand that is coincidental. Quite frankly, we should be concerned about getting a national scope, but the only thing we can address is the provincial one. If you are going to operate and hypothetically open it up, everybody has to play by the same rules and the safety of the people of Ontario is first and foremost. I do not think that is a problem.

My understanding as well is that if a Canadian firm wants to operate in the United States, it is subject to the same reciprocity, if you will, from the standpoint of an American firm that wants to operate in Ontario. It has to go down and become a corporate citizen of that state. If you want to operate in California, you have to have a California operation.

Mr. Cope: So far, we are bang on.

Mr. Ferraro: All right. I also understand, and I agree with you, that there are roughly 12 large firms--CP and TNT, for example, and all the rest of it--that have purchased a lot of American outfits and subsequently their licences. They have received American corporate citizenship and subsequently can operate. The same has happened here. To what degree, I do not think anybody will know until 20 years from now. I am assuming the bills get passed and so forth. Then my problem is, on the basis I have presented it to you, what is so bad about it?

Mr. Cope: The difference is simply this, after Bill 88 passes, the American carrier sets up his little shop here in Toronto, hires Canadian drivers and Canadian equipment, makes a simple application to the Ministry of Transportation and gets his licence. He is off and doing business. The Ontario trucker goes down to Lansing, Michigan, and says: "OK. Here I am. I am going to set up my little business here in Lansing and hire American drivers and American equipment." He goes to the authorities in Lansing and says, "Here is my application," and they say, "Get lost." That is the difference.

Mr. Bradley: Also, a Canadian carrier then will still have to be in the position of going down to Michigan and paying tens of millions of dollars to buy a Michigan company. A US carrier will not have to do that any more.

Mr. Ferraro: I appreciate the clarification. Notwithstanding the fact that Americans are buying Canadian companies and Canadians are buying American companies, and that you are talking about some pretty heavy hitters financially who can afford to do that, what you are telling me is that the ones that are less liquid, if you will, or undercapitalized, the smaller companies, will not have the same degree of flexibility because of the cost aspect.

Mr. Cope: Let me put it in these terms: An American carrier after July 1, when the deregulation we presume will be in effect here, sets up his shop in Toronto and hires all the people and makes application. His cost and time of getting a licence to operate wherever he wants in Ontario probably would be eight weeks. Eight weeks and he has got his authority and it has cost him just the cost of filling out an application and putting it in. The Canadian down in Lansing, Michigan, goes through the same drill. He puts in an application. It may take him four years and \$10 million to get the same licence.

Mr. Ferraro: Let me ask a question, Mr. Cope. I appreciate your expertise in this area. Surely that cannot be the same time span in all 43 states.

Mr. Cope: No, you are right.

Mr. Ferraro: Would the majority of them be pretty close to Ontario?

Mr. Cope: No, the majority of them certainly would not be.

Mr. Ferraro: What would the average be?

Mr. Cope: The average would be somewhere between moderate to heavy regulation.

Mr. Ferraro: Time?

Mr. Bradley: Time is really not something you can estimate because the bare facts of it are that most Canadian carriers do not even bother applying through the regulatory process in the United States because they will not get it. So you really cannot put a time on it. If you put a time on it, it would be infinite. They will not get it, so they do not bother. The only way they can get a licence is to go and buy it.

Mr. Ferraro: What does the federal government say when you present it with that fact? Do they call you liars?

Mr. Cope: No. The federal government, in so far as provincial licences are concerned--

Mr. Ferraro: No. I meant as far as reciprocity, time-wise, regulatory-wise and factual-wise in the United States. I do not want to pass the buck here and I appreciate your concern on behalf of the industry you represent. If it is going to take my trucker in Ontario a hell of a lot longer time to get a licence down there--which is probably true in Michigan, but not in the majority of states--and indeed if he cannot get to first base, if my Ontario trucker cannot get a licence in a lot of these states or they will put him through the hoops for three years and end up with nothing, then obviously it is a federal responsibility, particularly with deregulation, to try to work something out with those states and/or the government.

Mr. Bradley: They tried with free trade and they did not get it.

Mr. Ferraro: What did they say?

Mr. Bradley: Our understanding is that the individual US states said: "Get lost. It is our baby doll and that is it."

Mr. Ferraro: That is right.

Mr. Haggerty: A one-way street.

Mr. Ferraro: That is unfortunate.

Mr. Bradley: It really is not a federal issue because, federally, interstate and transborder traffic did open up in the United States in 1980. We are now talking about intrastate and intraprovincial. It is a different issue.

Mr. Ferraro: I suspect we are going to have to get reciprocity with those states that are being absolutely unfair. It cannot be all 43 states.

Mr. Cope: I will tell you this, if the Ontario government would get reciprocity with Michigan, Ohio and Illinois and soften up New York a little bit, we will give you the other 39.

Mr. Bradley: We can get operating rights now in Alaska if we want them.

Mr. Ferraro: They will probably want you to haul snow to California.

Mr. Bradley: Melted, yes.

Mr. Mackenzie: I have one final question. I am wondering if it is not a bit of an inconsistency or a contradiction. Obviously, you would like the reciprocity clause, but you want deregulation. At the same time, you want compensation for the loss of operating authorities because of the loss of value of licence. It seems to me that is a bit of a contradiction. It also begs the question, if you want the compensation for this loss of the value of your licences at the same time as you want the procedure that in effect makes them invalid, what about compensation for the workers who we have obviously identified are going to be at loss in this particular industry? Should there not be compensation for those workers at the same time?

Mr. Cope: Let me answer the first of those questions. I think it probably stretches our position a little to say we want deregulation. A proper statement of our position is that we are prepared to accept deregulation. We opposed it for a long time. We felt we were not going to be successful in continuing to maintain that position, so we would rather concentrate on: "All right. If it is going to come upon us, what do we need to take care of its heavy effects?" One of those was compensation for loss of value of operating authority. Because the Americans granted it, we felt that is a proper way to go.

In terms of the problem this is going to create--

Mr. Mackenzie: Even accepting that, and I agree with you, what about workers?

Mr. Cope: Obviously, some workers are going to be inconvenienced, disadvantaged and unemployed through this whole process, and I guess government has to take some kind of responsibility for the changes that its laws and new regulations bring about.

Mr. Chairman: This has been a good dry run for all of us in so far as Bill 88 is concerned, if it does get to the committee stage. I think it is,

as well, of course, a good, thorough discussion of the implications of that bill and free trade and the free trade agreement to the industry. I appreciate your coming and giving us the benefit of your research and knowledge. We look forward to seeing you again, probably later this month on the prebudget discussions.

Mr. Cope: We thank you.

Mr. Chairman: We will adjourn until tomorrow morning at 10 o'clock in room 228. Those who are watching on television will be watching the select committee on constitutional reform.

The committee adjourned at 5:10 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

TUESDAY, FEBRUARY 2, 1988

Morning Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

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Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

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Substitutions:

Dietsch, Michael M. (St. Catharines-Brock L) for Mr. J. B. Nixon

Fleet, David (High Park-Swansea L) for Mr. Ferraro

Nicholas, Cindy (Scarborough Centre L) for Mr. Neumann

Sterling, Norman W. (Carleton PC) for Mr. Villeneuve

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Board of Trade of Metropolitan Toronto:

Akin, Thomas, Chairman, International Trade Committee

Burse, James, Vice-Chairman, International Trade Committee

Han, Sinbee, Member, Economic Policy Committee

From the Retail Council of Canada:

McKichan, Alasdair J., President

Doucet, Gerald, Consultant

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday, February 2, 1988

The committee met at 10:09 a.m. in room 228.

TRADE WITH UNITED STATES
(continued)

The Acting Chairman (Mr. Pelissero): In the absence of the chairman and the vice-chairman, I have been delegated to start the meeting. Normally, the chairman is here on time.

We have a number of delegations to go through today, and I believe the representatives from the Board of Trade of Metropolitan Toronto are all here, so I would ask them to come up to the front and identify themselves and we can get under way. I know there is a summary that you have provided to us. We have approximately an hour of time, so take it from there.

BOARD OF TRADE OF METROPOLITAN TORONTO

Mr. Akin: Thank you, Mr. Chairman. As you have stated, we are representing the Board of Trade of Metropolitan Toronto. My name is Tom Akin, and I am chairman of the international trade committee of the board of trade. On my left is Sinbee Han, who is a member of the economic policy committee of the board of trade, and on my immediate right is James Bursey, who is vice-chairman of the international trade committee of the board of trade.

A while ago we provided a detailed brief that the board of trade prepared based on the preliminary transcript. Our brief remains largely unchanged, notwithstanding the release of the final legal text, and what we propose to do here this morning is just to provide a brief overview of our brief and then field any questions that the members of your committee may have.

The Board of Trade of Metropolitan Toronto has in excess of 15,000 members and, as a result, is the largest community board of trade or chamber of commerce in North America. The board membership comprises a broad cross-section of the greater Metropolitan Toronto business community, from self-employed persons to major corporations, both domestic and foreign-owned, and these are engaged in both service sector and manufacturing activities.

Over the past two and a half years, the board has supported the negotiation of a trade liberalization agreement with the United States, as the board views freer trade as a means to securing and enhancing Canada's access to the United States market. As you know, the United States is becoming increasingly protectionist in recent years, and the board believes that failure to reach some type of formal trading arrangement with the United States could expose Canadian exports to greater restrictions in that market in the future.

Based upon our examination of not only the preliminary transcripts but also the final legal text, the board believes that the proposed agreement will enhance Canadian access to the US market and will provide greater security against the protectionist mood of the US Congress. Complete security of access was not achieved, but we are optimistic that further progress can and will be made in the areas of antidumping and countervailing duties.

In this regard, as you know, the agreement provides for continued discussions and negotiations over the next five to seven years in order to come to some sort of agreement between the two countries as to what types of government support or incentive programs may be viewed as countervailable and what may not. This is obviously a critical area of interest to both countries, and we are confident that it is in the mutual interests of both to make some progress in that regard over the foreseeable future.

While the board is aware that free trade with the United States may impact negatively upon some sectors of the Canadian economy, many sectors will clearly benefit. On balance, the board of trade believes that the free trade agreement not only is beneficial to Canada as a whole but is also beneficial to Ontario. Accordingly, the board has previously urged and continues to urge the Ontario government to support the free trade agreement and to examine ways in which transitional relief may be provided to the sectors of the Ontario economy which may be adversely affected.

In this regard, the board is encouraged by some measures which have been taken already, including the recent initiative of the federal government to provide assistance to the grape growers and wine producers, and we are hopeful that other similar initiatives will be made by both federal and provincial governments in those sectors that may be adversely affected.

Finally, the board is also hopeful that the free trade agreement with the United States may serve as a catalyst leading to freer trade within Canada.

That concludes our opening remarks. As I say, we have filed a more detailed brief with a number of recommendations, and we are more than pleased to answer any questions that you or members of your committee may have, Mr. Chairman.

Mr. Chairman: Thank you very much. May I first of all apologize to both the committee and the witnesses for spending the last three hours on Highway 401? It was very enjoyable.

Mr. McCague: Better get a new highway.

Mr. Chairman: Thank you for your summary of your brief to us. Are there any questions? This must be a first if there are not.

Mr. Pelissero and then Mr. Haggerty.

Mr. Pelissero: Seeing that there are not any questions, might I suggest that you go through the summary of recommendations you have provided. I know there are only 21 recommendations. Maybe you could just go through those. I know you have highlighted some of them in your preliminary remarks, but it might be useful to expand on some of the points that are raised in each of the 21 issues. Could that be--

Interjection: Yes.

Mr. Pelissero: I notice they are direct to the committee as opposed to us trying to hit and miss on them.

Mr. Fleet: While they are doing that, I would like to get a better sense of the board's view of the winners and the losers in this deal. It is kind of an important consideration and it does not come through in the summary of recommendations.

Mr. Han: What I will do is just very briefly discuss our assessment of the so-called winners and losers across Canada. Then my associate James Bursey will talk about the winners and losers in Ontario.

It is very difficult at this time to say very definitively which industry is going to be a winner and a loser. If there is going to be a negative impact on a particular industry, it does not mean that all companies within that industry will suffer. Clearly, the biggest winners would be those regions in Canada that export a lot of things to the United States, in which exports come to a lot of their gross domestic product. These are resource-oriented provinces, in particular the Atlantic Canadian provinces and, to a large extent, also British Columbia and Saskatchewan.

I will briefly go over how Ontario stands up to the rest of these regions. Ontario also exports a significant amount of its gross domestic product to the United States: 20 per cent to 25 per cent of Ontario's total economy depends on exports. Of all the exports that stem from Ontario, close to 90 per cent are to the United States. Clearly, in terms of access to this market, Ontario will benefit from a free trade agreement. Just a general assessment is that the resource-oriented and export-oriented provinces will benefit in the short run.

Mr. Bursey: I am going to try to do a summary, if at all possible, of some of the industries that are in contention here in Ontario, as well as those where we might find incremental benefit or loss.

If you would like to take a look at our summary recommendations, item 9 talks directly about fruit and vegetable growers and, of course, poultry and egg farming. We feel there will be neutral impact there, for the following reasons. The fruit and vegetables growers primarily have a market which is local, which is also dependent upon a local canning industry that has been developed from that. The development of the fruit and vegetable growth market here is to serve the local Ontario economy, with very little exports, save that which is exported in the winter in a surplus product.

However, the next problem comes with dairy, poultry and egg products. There are two ways to look at this industry. The dairy, poultry and egg farmers have been protected; i.e., the marketing boards are exclusive of the agreement. It is possible that there will be revisions within the five-year period, but at the moment they are exclusive of the agreement, so the impact there is neutral.

Where there may be some opportunity will be for the poultry processors, whom I am sure you have heard from, or will if you have not already--and I have been a processor myself--is that there has always been a shortage of available poultry products in this province and across the country. Hence, we have not been able to develop the amount of prepared poultry products they have in the United States. Typically, we have been importing finished poultry products. That has been a problem.

We may be able to alleviate that if we can bring in fresh products from the United States and employ Ontario labour to further prepare that product for the frozen market. If we can do that through this agreement, there will be a benefit. But again, the agreement will have no impact on the milk, egg and poultry boards as they currently stand.

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If you look at item 10, the board acknowledges that the grape-growing groups in Ontario, as well as the wine industry itself, will be negatively impacted, which is a polite way of saying they are going to lose jobs.

Mr. Chairman: In recommendation 9 you use the word "negative"; you do not use "neutral."

Mr. Bursey: On further review, given what we now have in the detailed area, we would say the "negative" can be turned to "neutral." We said it "will" impact negatively; we now say it "may" impact negatively for the following reasons, which are items we did not know about before we got the clause-by-clause agreement.

Mr. Pelissero: Just on that point, certainly from a processing perspective there is a positive; but for the primary producer, the farmer, there is a potential negative in the sense that if there is no longer a requirement for a greater amount of raw product and it is coming either semi-processed or fully processed into the marketplace, it diminishes the requirement of the farmer to produce for that market.

Mr. Bursey: The funny thing is, that is already happening. It is already coming in semi-processed or fully processed.

Mr. Pelissero: But we also recognize that supply management systems were never meant for the export market and that under the General Agreement on Tariffs and Trade each country has the ability to basically fulfil its domestic requirements by supply-managed systems. So supply management by its very nature was never meant to be geared up for export. If you are bringing in further processed product, to me that is taking away from the ability of the farmer to produce that raw product for processing.

Mr. Bursey: You are blending two issues there. One is the supply management side.

Mr. Pelissero: Right.

Mr. Bursey: In the economy as it stands now, we have a shortage of poultry products in the Canadian market. Our marketing boards are currently not satisfying the demand, and that has been a major gripe of the poultry processing industry in Ontario and across the country.

Mr. Pelissero: Right.

Mr. Bursey: Supply management, such as it is now, is not even serving the demand in Ontario. Hence, we are not going to be, and have never been, in a major export position, save for turkey products.

Mr. Pelissero: Again, not wanting to mix it up, certainly from a Canadian production point of view, and depending on the poultry product, the system should not gear up for overproduction all the time. But if the market is growing, i.e. McNuggets or whatever, then I think the Canadian producer should have the opportunity to fill that market versus bringing in product from the United States. Basically, we have pegged an increase in poultry processing. It has gone from what they were allowed to bring in to what they were actually bringing in. That is what we have pegged it at now, and I see a threat. As you say, five years down the road, we are not sure exactly what is going to happen.

Mr. Bursey: There is a solution to that, and the solution is either deregulating the marketing boards or allowing them to increase production, because we do have a problem of demand being greater than supply. If the Canadian-based supply is not going to increase and if demand is to be allowed to be satisfied through this mechanism or through any other one, then either we are going to buy from other provinces or we are going to buy from overseas, and overseas would include the United States.

Mr. Pelissero: I will drop the point. But by allowing the supply management system to produce more, you also have to recognize the amount of exports when you calculate that as well. By just simply saying we are only going to allow the Canadian production side to increase in terms of producers, you have to recognize at the same time, on a proportional basis, the imports that were coming in. If we are going to increase our production by 10 per cent, you have to give a relative increase to imports coming in as well.

I am just concerned. While the government said the supply management system was left intact, I question, depending on the product, whether there is going to be less of a demand in some product--I am not going to say that is right across the board--whether it is in eggs, turkey or chicken. It is going to have a different impact on each of those commodities.

Mr. Bursey: From a poultry processor's point of view, I have had firsthand experience at running a plant. In the imbalance of the system, we have too many eggs being produced across Canada; and in our processing companies, which were located in eastern Canada, Ontario and British Columbia, we found it easier to import poultry from the United States under, effectively, emergency licence than to move our surplus production between provinces, sideways across the country.

Mr. Pelissero: That is another whole issue.

Mr. Bursey: I know, but it is related to it, so it is not a simple cut-and-dried thing of import versus--

Mr. Pelissero: No, and I am coming from an egg producer's point of view. That is my business.

Mr. Bursey: Exactly. As you know very well, in the egg area, we just have too much.

Mr. Pelissero: Yes and no.

Mr. Bursey: It depends where and depends when.

Mr. Pelissero: That is right. You cannot gear up the whole system for Easter and Christmas. I recognize that there have to be some imports coming in, and I would rather see us almost "shorting the market" versus what happened when the board first came in, the infamous dumping of the eggs. Anyway, I am finished.

Mr. Chairman: Do you have a supplementary, Mr. Mackenzie?

Mr. Mackenzie: Yes. It is a supplementary on the same thing. I just want to be clear. You are taking it, or your argument of the favourable position is strictly from the processors' point of view.

Mr. Bursey: Precisely.

Mr. Mackenzie: And negates totally the producers' point of view.

Mr. Bursey: No. It negates the producers' point of view if the board still retains its current production quotas. If the marketing boards increase their production quotas, we know the demand already exists. That is a domestic problem which has to be addressed domestically.

Mr. Mackenzie: Hang on for a second, though. You are quick to give the argument of the doggone producers in the deal. I have no background in farming whatsoever. I have had delegations of poultry producers into my office asking to meet with me, and they have. I probably got one of the strongest pitches against this arrangement from them that I have had even from some of my union friends. There is something haywire here somewhere when I get the kind of feeling that was at the meeting I had with a bunch of poultry producers.

Mr. Bursey: Did you find out why they were complaining about it? What was the thing they were complaining about most?

Mr. Mackenzie: One of the things was a fear of the imports that will come in, and you are obviously encouraging them or think it would be great for your industry.

Mr. Bursey: From the processors'--

Mr. Mackenzie: From the producers' point of view.

Mr. Bursey: From the processors'.

Mr. Mackenzie: --I find that is many of the producers' point of view.

Mr. Bursey: Producers are the farmers. The processors are the people who kill and package.

The other thing we have to think about is, what about the consumers? Ultimately, the consumer should be able to have the demand satisfied. We have had an increased amount for processed poultry. So far, we are meeting the demand for fresh poultry. What about the consumers? Can we not at least help them out a bit?

Mr. Mackenzie: I noticed in your list that you do not list textiles. Let me change ground just for a second.

Mr. Bursey: I would be happy to talk about textiles.

Mr. Chairman: Perhaps, Mr. Mackenzie, we can leave that for your questions so that Mr. Haggerty can have a question here.

Mr. Haggerty: I just breezed through the summary of recommendations and I have some difficulties in following some of the recommendations or items that are indicated. It says that the board believes that in the beginning they were all in favour of negotiations for a trade liberalization agreement with the United States. You go down to section 7 of it: "The board believes that, while the proposed dispute settlement mechanism will operate based on existing trade laws and thus leave Canadian exports open to harassment..." Can you expound on that, just say what you are trying to drive at? We have had other witnesses appear before the committee who have indicated the same concerns, yet they favour further trade with the United States under the existing new agreement.

Mr. Akin: Yes. What the issue really is gets a little confused because one of the major questions is, what were the objectives of this free trade agreement in the first instance? One of the concerns that has prompted these negotiations is the increase in trade protection actions being taken by US domestic producers, not just against Canadian exports into the US market but against exports into the United States from all over the world. There is a system for imposing antidumping and countervailing duties. Those systems can be used in a very harassing manner.

One of the stated objectives of the free trade discussions was to eliminate or at least reduce that. In our view, it has perhaps been reduced but clearly not eliminated. The big issue that remains is what we should have in place of the current systems, because it is a two-way street. We have to recognize that Canada too has similar laws which would impose countervailing duties where goods are subsidized by foreign governments, including the United States government, or where goods are dumped from a foreign market into our own market.

So for Canada to say that we want total immunization from any trade sanctions in the United States, regardless of what our trade practices might be in their market, we would obviously have to be prepared to step up to the bar and give the same kind of commitment that we would not be able to take any trade sanctions against US goods coming into Canada. For example, Canada is the only country that has imposed a countervailing duty against United States goods--namely, corn--because of certain government subsidy programs.

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The area that really needs to be dealt with under this free trade agreement and has not been dealt with to date--but the door is still open on this--is the getting down to the brass tacks of defining what types of government support programs will be acceptable to the two parties. It is in both governments' interest to deal with that very complex issue and to come to some sort of resolution on that over the next five years, or seven years, if necessary. That mechanism for continuing those negotiations is provided in the free trade agreement itself.

My sense of it is that the parties were making good progress on that front but were not able to complete that complex task in time for the timetable that had been set to reach an agreement on freer trade. The next best course of action, which seems to make some sense, is to provide for a mechanism to continue those discussions, because the impact of the free trade agreement will be 10 years in respect of many goods before it is fully in place, and in some cases longer for some specialized industries.

That is precisely what we meant by that, but there is no easy answer as to what kinds of government support programs are going to be authorized and what will not. That is obviously a very important issue not only to Canada but to the United States.

Mr. Haggerty: I think Donald Macdonald raised that same issue, and questions were asked of him, that he has some concerns in this area but supports the principle of free trade. When you get into it in more detail, the Ontario Trucking Association yesterday, for instance, supports free trade too, yet it is saying that we do not have access to fairer trade in the sense of moving goods from Canada to the US and from the US back, because there is a border there that says you still cannot do it. It is not open to the trucking industry through, I guess, deregulation.

You come back and you say, in item 12, for example: "The board believes that the forest products sector also stands to gain from free trade, and that a trade agreement will encourage the industry to reduce its dependence on..." It goes on to say that, but we have had witnesses appear before the committee in the area of the softwood lumber industry in Ontario who are not too happy with the present trade agreement because they still have some trade barriers with that industry--that is, the countervail duty on softwood lumber. It does not even touch the area of other sectors of the softwood industry--that is, in the plywood area.

There are still trade barriers there, yet we have had delegations come in here and say, "Yes, this is great for Canada. We've got access to the American market," which is misleading, in a sense. We do not have that with those trade barriers there.

You talked about the omnibus bill that is there now, the protectionist bill. We can have the principle of the free trade agreement, but it is not fair for that legislation being held as a clout against Canada and other trading partners with the United States.

You could go on. Just look at the document you had before us here this morning. You sum it up: "While the board of trade believes the proposed Canada-US free trade agreement has some shortcomings..." There are a number of them there that say: "Let's take a second look at this thing. We haven't got what we want in Canada. We've given our energy resources up on proportional sharing." If you get a shortfall of energy in the United States, as they have right now, and they want to increase their imports from 40 per cent to 50 per cent, they have it through Canada.

Mr. Chairman: You have a question, Mr. Haggerty?

Mr. Haggerty: I cannot see in your summary of information here--you are saying that in the long run it would be a saving to the consumers of Canada on the energy side that we will be paying a lower rate of energy. That, to me, is perhaps misleading.

My question is that I do not know where you arrive at some of these here.

Mr. Akin: We are more than prepared to deal with this on a point-by-point basis, if need be. You raised a number of issues but, going back to one of the earlier issues you raised, I have not heard really too many other groups which are supporting this agreement holding it out as a total and complete answer to all issues.

There are a number of major issues that we all recognize bear close scrutiny and consideration. I think what is apparent, though, is that a number of trade sanctions and trade actions are going on, even in the absence of a free trade agreement with the United States. Ontario and Canada have experienced several recent rulings in front of the General Agreement on Tariffs and Trade panel, none of whose outcome I think any of us can be too terribly satisfied with.

The basic proposition we are putting forward is that, without a trade liberalization agreement, the free trade agreement we have, yes, it could be better; but, on balance, we think it will be an improvement over the situation that would have existed in the absence of any agreement at all. It will deal with a number of these complex issues, maybe not totally satisfactorily.

One of the questions for those people who would propose not endorsing or adopting this free trade agreement is, what are we going to do in its place? I have not heard any easy answers. We are more than prepared to deal with some of the specific points you have raised on some of the specific industries--for example, energy and others. Jim, did you--

Mr. Bursey: I just want to add one other thing. We have pointed out, we think, in our presentation that there are going to be some industries that are going to lose, but let us not forget that some of the countervailing actions that we have against us in the United States right now, such as the softwood lumber one, are time limited and will be open to review. That particular one is a little bit under two years now, which will be at the time when this so-called free trade agreement will come into its major effect.

Second, the mechanisms which we are setting up and the review process that may be involved in the free trade agreement, such as the binational review committee, should foster an environment whereby both countries' putting on countervailing actions against each other will be decreased.

That is the intent of it. Whether it will happen we do not know. Again, that is the thing with a lot of legislation which you, as legislators, are familiar with. One can legislate as much as one wants, but one is never sure exactly how the humans are going to react to it.

One of the other things that we have to point out, however, is that, in sum total, the industries in Ontario should benefit. There is no conceivable factual reason they should not, in total. Yes, there will be some that are going to have problems; those have been very vocal and their position has been very well put. But in total, it seems the agreement is positive.

Mr. Mackenzie: I just have one question I would like an answer to. The organization that you represent--it is an almost identical brief to the chamber and the business council. I am wondering what kind of mechanism you have to contact all of your members, or is that done before you take these positions? I raise it advisedly, because we have had some counter-business groups and an engineers' brief that supposedly were speaking for all of their people, and yet the next delegation had four engineers who had heard nothing of the position and certainly had not supported it.

How do your members break? Are they 100 per cent in favour of your position? Do you have any mechanism for contacting them all and getting them on side in these positions?

Mr. Akin: I do not think it is fair to say that 100 per cent of our members are in support. We have a number of mechanisms whereby the various positions that are adopted by the board through formal procedures are communicated to the members, and any members who wish to comment who are not involved in the various committees of the board themselves are more than free to do so.

We have received some inquiries from members regarding the well-publicized position among our members as to the board's position. As I said in my opening remarks, the board has endorsed the negotiation of trade liberalization with the United States, over the last two and a half years, at least. A number of the board's monthly and weekly disseminations of information have alluded to that position, and I think it is fair to say that virtually all members support that concept.

I am confident that not all of our members support the final deal as written, but I am equally confident that a vast majority does so, based on the number of responses and comments.

Mr. Mackenzie: My good friends and supporters, the Canadian Federation of Independent Business, at least do a survey of all of their members. Do you do any kind of formal survey, any kind of convention or any kind of vote among your members, or is your position put to them through the committees and then there are only objections, if they object?

Mr. Bursey: We have 40 committees of the board, all of which report to the council. All the recommendations and findings which the council puts forward are sent to all members in the monthly mailings in the month in which those reports are made, and a summary position is stated as to what the board is doing. So first off, all members are informed.

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Second, on December 15 with, I think, the exception of three people, we had the entire negotiating team for the free trade agreement at an afternoon information session where members of the board of trade could come and ask questions directly to the negotiators. We had this divided into five industry categories. Later those people were scattered around the audience at a more formal dinner and they were identified by table so that people could talk directly to them. In addition, their names and addresses were also handed out so that our members could get in touch with the negotiators to find out directly from the people who had negotiated this agreement what was going on.

So we had a fairly good opportunity, first off, in circulating the briefs of the board to the membership; and that went to everybody, whether he wanted to read it or not. Second, we had feedback in the form of questions at a conference on December 15, after we had the point-by-point, as opposed to before, when we did not know what was going on. I think we have covered this as well as any disparate and diverse organization as this can.

Mr. Chairman: The Canadian negotiators or the American negotiators?

Mr. Bursey: The Canadians.

Mr. Chairman: How do you get hold of them?

Mr. Bursey: It is hard.

Mr. Chairman: They will not talk to us.

Mr. Mackenzie, I cut you off earlier on a question about textiles. Did you want to ask one?

Mr. Mackenzie: No, it does not really matter.

Mr. Dietsch: I have some questions I would like to ask, some for clarification and some to get a greater understanding. Do you have members of your board who are automotive or auto parts manufacturers? Which is it, automotive or parts manufacturers?

Mr. Akin: Both.

Mr. Dietsch: Assembly plants?

Mr. Bursey: Yes.

Mr. Dietsch: On the point you make--that the terms of the agreement that will discourage the construction of new auto assembly plants in Canada are not detrimental to Canada--what do you mean by that statement?

Mr. Bursey: First off, we have to think about what is going on in the industry, because there is a context in which one puts a summary point, and the context is as follows. Automotive investment in North America from what we would call the offshore companies is likely to be over at this point for the very long-term, foreseeable future. By that I am talking 10 to 15 years. That is for vehicle assembly plants.

As I think you are aware, there is growing overcapacity in the industry. That overcapacity is primarily owned by General Motors; to a second extent Chrysler, which, by the way, last week recognized its overcapacity by closing its Kenosha, Wisconsin, plant; and to a lesser extent Ford has some overcapacity.

The change of Honda, Toyota, Nissan, etc., from import status to domestic manufacturers is creating some of that. Although imports have not declined, they have grown only marginally. Actually, in the United States this year they have fallen while in Canada they have grown a bit. So the whole industry is in flux as far as the assembly plants go. From a parts manufacturer's point of view, we have a larger number of customers but we will have much smaller production runs, and therefore the cost of manufacturing parts in North America could potentially go up because we cannot get the long-run scale of efficiency. That is the context in which we make the comment.

The point is that the industry worldwide is pretty well open. As I think you are aware, the North American vehicle companies--through the auto pact as it currently stands, without any free trade amendment--can import through Canada automotive parts from anywhere in the world without having any duty, assemble those into vehicles made here in Canada with up to 40 per cent of Canadian value added and ship those into the United States, which is one of the major problems that the US parts industry had with the auto pact as it currently stands.

Second, that barrier to importation of automotive parts into the United States now has decreased since we wrote the automotive pact in 1967. In 1967 we had a 12.5 per cent duty on imported or foreign, non-North American automotive parts into both Canada and the United States. In Canada right now that import duty stands at four per cent and in the United States it ranges from 2.5 to three per cent.

Any efficient manufacturer can jump over a very small barrier like that, and they have been doing that, from countries such as Brazil, Taiwan, Korea, etc. So the whole automotive industry, we are finding, is becoming a global-sourcing, global-manufacturing industry. That has happened principally since the recession or, for those in more depressed areas, the depression of 1982. That is something that is happening globally.

So whether or not we have a free trade agreement: (a) we will have fewer automotive parts plants in North America because of consolidation and lack of opportunity, (b) we will have increased importation of automotive parts and (c) we will have more disparate vehicle assembly points--i.e., that will increase the manufactured cost of vehicles in North America. It is a situation that will happen whether or not we have free trade. Hence, that is why we make that summary comment.

Mr. Dietsch: I am not going to argue with the points that are being made because I think it would take up too much time. However, I do have some difficulty with some of them. I would make the point, in relation to some of the plants that are coming in and constructing plants in Ontario at this point in time, that this would lead me to believe that some of the points you are making are not valid.

Mr. Bursey: If you think of when those plants were announced, some of them were announced four years ago. For instance, the Honda Alliston plant was announced in late 1983; it is now 1988, going on for almost five years. If you take a look at the Toyota plant, that was announced, again, late in 1984. But we have had nothing announced in the last 20 months in North America as far as new plant construction is concerned, either in Canada or the US, with one exception, and that is the expansion to the Honda Marysville plant in Ohio.

Mr. Dietsch: The interesting point about that might be that it is about the length of time the free trade negotiations have been going on as well.

The other point you make is with respect to recommendation 15, about an industry in which Canada has a competitive edge. You are saying that the automotive manufacturers assembly plants purchase more in North America in auto parts and you seem to think the industry in Canada has a competitive edge. Is your assumption based on the current value of the dollar in relation to the American dollar? On what do you base that assumption?

Mr. Bursey: Comparative energy costs and comparative labour costs. There is some calculation on the value of the dollar, but we had to assume an even dollar, one to one. Let us hope the Canadian dollar does not become more expensive than the US dollar. In that case, everything gets thrown out the window.

But one of the things you have to take a look at in this free trade agreement is that there are manufacturers today who do not qualify under the auto pact to export components into the United States. Now you say, "OK, so how is that going to increase their business?"

The automotive companies buy under two purchasing systems. Purchasing system number one, which is the one we are most familiar with and which the auto industry in this country is geared up for, is under what is known as OE rules, i.e., it is going into original equipment parts for the assembly of vehicles.

The second group of purchasing, which Ford, GM, Chrysler and, of course, the Japanese plants do, is aftermarket. The aftermarket is where Canada, typically, has been importing most of its parts from the United States. Since we have not had the scale economies in manufacturing here in Canada and, second, we have not had access to the US market, on average, most aftermarket components still face a 12 per cent duty into the US.

Therefore, with this agreement, we will soon very well be able to jump that barrier, and if the administrative details go the way Canada and the US are currently talking about, we will be able to blend shipments of aftermarket and OE parts into the United States and they will have zero duty. Hence, we will have more opportunity in there.

Remember, right now the Canadian aftermarket market is dominated by US firms, so the only way we can go is by increasing Canadian manufacturing and

Canadian exports to the United States. We are already dominated by the US without the free trade agreement. It is not going to get any worse.

Mr. Dietsch: The last area I would like to talk about is with respect to 9 and 10, and I would like to put them together a little bit, if I might. The comment you are making is that the free trade agreement will impact negatively upon the fruit and vegetable growers and then you are lumping in the dairy and poultry and egg and so on, putting agriculture all in one basket, if you will.

In an area where there is fruit and vegetable production, as well as grape production, such as the area I represent--I am not sure how many growers or how many farmers you have on your board of trade, but I would submit to you that when you take the negative impacts on the fruit and vegetable industry and you couple that with the wine and the grape-growing industry, the question is, what would you expect to grow on that land?

Mr. Bursey: We have said "negative impact," but we did not say a total disappearance. Do you seriously expect the Niagara Peninsula will be laid waste by the free trade agreement?

Mr. Dietsch: I guess my--

Mr. Bursey: I am asking you a question, as you asked me a question. Do you seriously expect the Niagara Peninsula to be totally laid waste?

Mr. Dietsch: I think we have our roles mixed up here.

Mr. Bursey: Sir, you are asking me questions. Mr. Chairman, am I not allowed to counter with questions?

Mr. Dietsch: I do not have any problem answering that question. You are correct that it is not going to disappear totally, but my question to you is, what is going to happen with the land that lies fallow as a result of these two particular implements that are going to take place in the free trade agreement?

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Mr. Bursey: Unfortunately--and it is a position that I do not particularly like--it is highly probable, given the strategic location of the Niagara area to the United States, that we will see manufacturing going on those lands. Personally, I do not like that. I like to see farm land being used as farm land, but the economic reality may be that it becomes manufacturing land and not farm land. That is not only a possibility, but also one of the major complaints, I understand, already in the St. Catharines and Niagara-on-the-Lake area. There is a lot of industry moving in there. That is one probability.

Mr. Dietsch: You confirm in my mind the feeling that not all the individuals who are in the big metropolitan suburb of Toronto understand the issue of farming.

Mr. Bursey: We do not have a problem with that comment.

Mr. Sterling: Yesterday, the Ministry of Agriculture and Food came out with a report. It basically put forward the same position they did when they were in front of this committee: a \$95 million loss of market. Have you had an opportunity to look at that report at all?

Mr. Bursey: I have looked at a summary of the report. I have not looked at the full report.

Mr. Sterling: I just wondered because, when the deputy minister was here, I found it quite amazing that they produced the report yesterday in the form that they did, because one of the assumptions was a loss in the dairy industry of something like \$10 million. That was based on the assumption that yoghurt and ice cream were not on a protected list for dairy farmers.

Yet the very same day that the deputy minister was in, the federal minister was making that particular announcement that they were on a protected list or were going to be put on a protected list, and, therefore, changed the report or the actual calculation of the \$95 million and brought it, presumably, to about \$85 million on that one assumption being changed.

Within that report on agriculture, a big part of the loss dealt with the fruit and vegetable growers. Their estimated loss of market was about \$50 million, making them the largest losers, I guess, in the agriculture industry in total dollars. Do you agree with that \$50 million or have you had an opportunity to look at it closely enough?

Mr. Bursey: When we are talking about a \$33-billion economy, sir, \$85 million to \$95 million is not particularly large. We have not had time to study that report, as you indicated, but one of the things we have to point out is that, as far as total income goes in Ontario, agriculture represents two per cent. Typically, this is an industrial province. Second, it is a raw materials, exclusive of agriculture, mining province. Third, it is an agriculture province.

We can commiserate. There are many cases whereby agreements under the GATT and bilateral agreements that Canada has entered into have affected particular industries negatively. We have asked the provincial government and we have asked the federal government to assist those individuals and those firms to lessen the impact, be that by retraining, be that by creation of new industries or be that by regional industrial development, such as the Ontario Industrial Development Corp., etc.

We have to go back and take a look at the larger picture. The unfortunate thing is that the larger picture is that we have a \$33-billion economy in this province. Yes, we know people are going to get hurt and, yes, we know there is going to be opportunity. Now, in regard those people who get hurt, I suggest it is your responsibility and the responsibility of those of us who are in the business community to assist those people who will be negatively impacted, i.e., lose their jobs, to find jobs in other areas.

The problem is that we could very easily in one year lose \$10 million or \$100 million or even \$200 million, just simply in the fluctuation of currency. We could lose that trade anyway without a free trade agreement. I am just trying to put it in perspective, but, as far as that comment goes, I have not had time to read that in detail.

Mr. Han: We seem to be concentrating on industries which will be hit negatively, as you put it, but I think we should look at it in a broader context. The reason the board of trade supports a free trade agreement is that, first of all, and I already said this before, the resource sectors of the Canadian economy will clearly benefit.

To the extent that resources account for the bulk of the economies of

our provinces which have not really participated in the strong economic boom that has happened in Ontario since the past recession, we think that regional economic disparity will be reduced as a result of free trade. Certainly Ontario, which is a leader in the Canadian economy in terms of its share of the total market in Canada, surely has to realize that what is good for Canada as a whole must be good for Ontario as a whole.

Mr. Chairman: Mr. Han, do you realize that our Ministry of Natural Resources disagrees with you on that? They have indicated that they thought they were going to benefit from this agreement but they are not so certain now.

Mr. Bursey: Have you also seen a report which is currently being developed by the Department of Energy, Mines and Resources federally? It has no comment, actually, on the free trade agreement, it is a separate piece of consulting work, but what they are pointing out is that we have had the major impact in our mining sector, not from any free trade agreement but from the GATT, the agreement that we entered into and started negotiations on 15 years ago. Unexpectedly, Third World countries have developed natural resources equivalent to our own with much lower labour rates, and hence undercut us.

Mr. Chairman: They are not saying that free trade would not help natural resources. They are simply saying that this particular agreement has impediments in it, such as the entrenchment of the softwood lumber solution.

Mr. Han: We realize the softwood lumber issue is perhaps one shortcoming and we actually acknowledge that. The point we are trying to make in terms of the resource sector benefiting is that free trade at least will help in removing future impediments to trade in the resource sector.

Mr. Fleet: The fundamental approach of the Macdonald commission report, which in many ways started off all this debate on free trade, was that when you have a lot of losers, you have to have a safety net, some kind of a mechanism for providing assistance to the employees, particularly of the losing industries.

I noticed, at least as far as I can tell in glancing over it, there is no reference to that at all as a consideration or a factor in your brief. I am just wondering if you share the view put out by the commission that that is important or if you share the view of the federal government, which is that it is going to be such a wonderful thing that we will not need to provide any assistance to anybody.

Mr. Akin: Actually, in our opening remarks we did state that it was incumbent upon both federal and provincial governments to identify the areas that could be adversely impacted under the free trade agreement and to provide assistance. I believe we also state that in the brief, so we do agree.

In fact, we indicated we endorse the initiatives already shown, for example, for grape growers. There have been some announcements vis-à-vis concerns expressed by the textile industry, which could be a two-edged sword, but there is also, I know, consideration in the automotive sector vis-à-vis the tariff rates that apply on imported components, and that could spread much more widely.

Yes, we do agree that there has to be consideration of the impacts in the negative sectors and assistance, where appropriate, should be provided. But again, governments have to step back and take a balanced look and try to remedy the situations on a balanced basis, rather than isolating and ignoring potential benefits.

Mr. Fleet: Do you take the view that this should be a comprehensive effort from the federal government, or is it more of a mopping up action by whichever government of the day might be persuaded to do something to help people?

Mr. Bursey: I think there is an excellent opportunity here for the provincial governments, as well as the federal government, to provide leadership in the area of, if you wish, competitive national strategies. You may ask, "What in God's name is he talking about?" Over the last 15 years, we have seen a rise of a number of Pacific economies in particular, where with skilled labour forces and with great determination they have taken chunks, not just small pieces, of the North American market in consumer products and industrial products.

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Yes, in a case where we have dislocations in the economy, we have to retrain people and provide job opportunities for them; but probably the greater task is to provide job opportunities for the new workforce entrants, those people who are leaving high school, community colleges or universities. To simply tackle in a piecemeal fashion job relocation or job training as a result of a free trade agreement, while necessary, is not the whole picture. We need a much more co-ordinated and larger, more effective program than anything we could possibly do under job retraining and job relocation.

One of the big problems that European studies in that area have pointed out is that, unfortunately, as the age of an individual increases, the more difficult it is for him to change his basic methods of work and learning. We are going to have problems. That has to be something that is going to cost us socially, but it is something, unfortunately, that is going to happen with or without the free trade agreement.

We also have a major problem in the area of what you might call skilled labour. That is a very broad category but, typically, for the manufacturing industries and also for the scientific industries in Canada we have a shortage of skilled people. We are not creating those out of our current school system. That is another problem we are going to be facing with or without free trade, something which actually a lot of manufacturers are facing now and they are electing--and I can give you lots of examples--to manufacture their products outside this country.

That is a major problem that we have. We will not be able to provide the high-tech employment opportunities, which provide a lot of value added, i.e., these people are very well paid, if we do not address a lot of the training problems we have. It is a very long-term problem; I guess the solutions are long term also.

Mr. Fleet: In the allotted time, I have a completely separate area I would like to hear some comment on.

Mr. Chairman: I see two other members who have already asked questions and Mr. Morin-Strom has not. If you can be very quick, perhaps he can get 30 seconds in.

Mr. Fleet: I was wondering if there could be more specific comment with respect to paragraph 13 on the energy sector. When you say there were some concessions made, what are you talking about there?

Mr. Han: The thing is, we did say that the board believed that some

concessions were made, but again we emphasize and we say this here, that the board observed that Canada is already a party to energy-sharing agreements in the event of a supply crisis. So while we believe that Canada may lose some of its sovereignty in terms of controlling where its energy resources end up, in any crisis, Canada is already involved in a global energy-sharing agreement.

Mr. Morin-Strom: First, I would like to make a comment on one of your recommendations, number 5. You say "The board recognizes that the trade agreement will diminish Canadian political flexibility somewhat." Certainly that is one of the key issues in this agreement and why there is such strong opposition to it. But it is also one of the reasons the business community and the right wing of ideology in the country is quite happy with the agreement, because it restricts the right of government intervention in all kinds of areas of the economy.

I would like a question, though, related to a key portion of Toronto's economic community, and I am surprised you have not commented on that. That has to do with probably the biggest segment of jobs in Toronto, certainly totally out of proportion with the rest of the country, and that is white-collar management jobs in head offices in various office towers in downtown Toronto.

We certainly are the centre for management in Canada, and I would have thought you would have made some comment about what this agreement will have in terms of its implications for office functions in downtown Toronto. In particular, are we going to see more head offices here in Toronto? In fact, is this agreement a bonanza for bankers, investment dealers, lawyers and consultants in Toronto?

Mr. Bursey: The short answer is probably yes. The Metropolitan Toronto economic planning office developed a recent study and came out very much in favour of the agreement on that basis, that there is going to be increased employment in what we typically would call the service sector, which includes bankers and consultants. I am not sure about lawyers. I would have to ask Tom that.

Mr. Akin: I hope so.

Mr. Bursey: Typically, there is going to be more employment in those areas. One of the reasons they came to that conclusion, and we concur, is what has happened in Europe. Although Europe, as we know, has been integrating economically for a number of years and, by 1992, is expected to be fully integrated, there has been no diminution in the number of head offices that are located within certain national areas.

In short, if you take a look at multinational companies such as Ford, they have head-office operations for Germany in Germany, but they also have head office operations for Europe in the United Kingdom and Zurich, etc. In other words, there has been no reduction in the white collar force. If anything, there has been an increase simply because of the increased activity of business.

So, to answer your question, yes, it looks as though there is going to be more opportunity for the typical Toronto employment, which is white collar work, and also more in the smaller entrepreneurial-based service sectors that provide services to white collar business.

Mr. Morin-Strom: How will that contribute to increasing the amount of production of goods we will actually have within our economy and how is it

that we can continue to expect grass-roots blue collar workers and farmers to support an increasing load of white collar management functions in the city of Toronto?

Mr. Bursey: You are making two assumptions. Assumption one is that a company that has its head office in Toronto is, therefore, directing operations around the country. That is not necessarily true. The second thing is that you are assuming that this is a political argument when in fact it is a managerial argument and an investment argument.

To answer the first question, if there is an increase in white collar employment, it is not necessarily related to manufacturing. As you already know, manufacturing is of decreasing importance to the Ontario economy even without this free trade agreement and, in particular, to the Metro Toronto economy. Where we find manufacturing is in the hinterland, in places such as Guelph, Kitchener, Waterloo, etc. There I do not know what is going to happen with companies. That depends on how competitive they are going to be with their foreign competitors, their US competitors and their Canadian competitors. We cannot really make any comment on the structure of management. I am not Peter Drucker.

Mr. Chairman: I am going to have to cut that off here. It has been an interesting discussion. I think we have heard from the Metropolitan Toronto Board of Trade on other occasions, but I do not think we ever had such a thorough discussion of poultry producers and we recognize your interest in the poultry producers of Metropolitan Toronto.

Thank you. I expect we are going to hear from you again some time later this month with regard to a prebudget submission.

Mr. Bursey: Yes.

Mr. Chairman: We appreciate your involvement. The photographer has indicated, and I take it he is your photographer, he would like to have some pictures of some committee members cosying up to the board of trade or vice versa.

Interjections.

Mr. Chairman: Either way, I am going to take a 45-second adjournment so that can occur and then we will get started with the Retail Council of Canada.

Mr. Bursey: Thank you, Mr. Chairman.

The committee recessed at 11:07 a.m.

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Mr. Chairman: We have with us representatives of the Retail Council of Canada; the president, Alasdair McKichan, and special adviser Gerald Doucet, who is the principal of the Gloucester Group. Welcome to our committee, gentlemen. We received your brief this morning so most of the members will not have had a chance to go through it. Perhaps you can lead us through it and then entertain some questions.

RETAIL COUNCIL OF CANADA

Mr. McKichan: Thank you, Mr. Chairman. Perhaps first I might develop the introduction of my colleague a little further. As well as being our adviser, Mr. Doucet was recently a senior vice-president of the Retail Council of Canada and in fact was involved in much of our initial research in relation to the free trade arrangement. Also relevant to the context this morning, he is chairman of the federal government's sectoral advisory group on international trade devoted to agriculture, so can bring some perspective from that point of view.

I might also mention that as an organization we have had representatives on four of the SAGITs, including general consumer goods, textile and footwear, apparel and fur--on which I have been representing the council recently--and Mr. Doucet on agriculture. With your permission, rather than plod through the submission, I will attempt to summarize it to leave as much time as possible for questioning.

As to our constituency, the retail council represents retailers in every specialty who perform something over 65 per cent of Canada's total retail trade. The percentage in Ontario is somewhat higher than that because of the concentration of our membership in this region. We have over 5,000 members, who operate something over 20,000 outlets.

Our work on the free trade issue really traces back to the beginnings of the idea, and of course we appeared before the Macdonald royal commission in broad support of the concept. When the agreement's text was finally available, we examined it, and the executive committee of our board has endorsed the principle of the agreement.

The basis of our coming to that conclusion was not only--or even mainly--because of the positive effects which we perceived for consumers and, as a result of the positive effects on consumers, for the retail trade, because of course with more variety in product and lower prices we would expect more volume in retail and thus more employment in retail. But that is not the primary reason for our support because we were quick to recognize that unless the primary, secondary and tertiary industries in this country are all thriving, unless they are employing people at good wages, then it is academic whether we have better prices, because we would not have the buying power to take advantage of them.

The viewpoint of our membership has very much been determined by their construction of the effect on these primary industries and, of course, on the supply industries to retail, about which they have the most knowledge. We believe, in terms of principle, that we do indeed need to secure a larger market than the 25 million people available in Canada. We believe it would not be prudent to await the outcome of the General Agreement on Tariffs and Trade negotiations, although we are fully in support of these negotiations and the hopefully positive outcome of these negotiations, but we believe that in the meantime we should not stand still, we should initiate the transition which the GATT agreement will, in any event, call for.

We address the question of sovereignty. We recognize that in this, as indeed in any other significant international treaty, there is some loss of sovereignty; less, we suggest, than will be required of us if, in fact, we are successful in the multinational negotiations; nor do we see it as likely to inhibit outright our freedom to introduce whatever type of social program we have in mind. We cite the example of Sweden, which has probably the most

highly developed social programs of any developed country in the world, yet is well able to trade with and compete in the common market and the related trade arrangements, even though it is significantly more directive and more involved in social programs than many of its trading partners.

We are supportive of the mechanisms of the agreement, not because we regard them as perfect, but because we feel, realistically, they are probably just about as good as we were going to get, considering that we had our best professionals negotiating. They did the best they could, and we feel it is pretty good, and if not perfect, quite reasonable and effective. In the supply categories with which we deal, the two most sensitive areas are apparel manufacturing and agriculture.

So far as the apparel manufacturing sector is concerned, and I have been involved in the work of the sectoral advisory group on international trade in this area, we are reassured by the aggressive and optimistic attitude of the apparel manufacturers, who indeed feel that while they will probably lose a share of the Canadian market to US manufacturers, they expect to gain a seemingly small but, when you translate it into actual volume and actual dollars, very significant share of the US market. After all, when we consider that two per cent of the US market is equivalent to something like 25 per cent of the Canadian market, it becomes clear that penetration which seems small in percentage terms can, in fact, be very meaningful. We are supportive of the apparel manufacturers in their discussions on duty remission, which will enable them to better compete in the Canadian market with third country imports to this market.

I am going to ask my colleague to address the agriculture sector, but before I do, I would like to touch on the retail sector itself as an entity, both it and its customers, in which the committee probably has an interest. While the agreement does make it somewhat easier for US companies to contemplate coming to Canada, not because there have been severe impediments in the past, in fact there have not, but simply because a US company can now contemplate, at least by the time of the 10-year working out of the agreement, bringing most of its supply resources with it if it contemplates coming to the market, in our view it would be wrong to assume we are going to be inundated with a flood of US retailers. In fact, the Canadian market is, first, quite well served by our existing retail universe, and second, Canadian retailers have shown themselves to be up to par internationally, in terms of their competence--people come from all over the world to study many of our distribution companies.

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Third, experience has shown that it is extraordinarily difficult to move a retail concept across a cultural border, even one as similar as Canada and the United States. We have examples going both ways of companies that are experts in their own environment that do not do so well when they attempt to move across a frontier. We do feel that there will, in fact, be an avalanche of US companies coming here.

We do not believe that there will be any violent change in customer behaviour in terms of cross-border shopping because, after all, this is not a customs agreement, not a customs union. It will only affect goods which meet the test of origin, of being manufactured in one or the other country.

A great many items which are intensely price-competitive are, in fact, imports and of course they will continue to have to have to bear a duty if

they are trans-shipped across the border. Furthermore, by the time the agreement is consummated, the initial costs of merchandise will be roughly similar in both countries, so whatever advantage exists will only be the advantage of one or the other retailer in either country being able to deliver a better price because of its own efficiencies. We think Canadians are quite able to compete on that basis.

In summary, Mr. Chairman, that is our viewpoint, except for the agricultural sector which I would ask my colleague to address.

Mr. Doucet: Thank you, Mr. McKichan. I will be very brief, Mr. Chairman. I just want to stress, as Mr. McKichan has done, that I am here today not only as the Retail Council of Canada's adviser but as the chairman of the sectoral advisory group on agriculture, food and beverages. So some of the things I will be saying will be drawing on that experience.

In the agriculture and food sector what is worth noting is that we have a completely separate annex to the free trade agreement, in fact, a negotiation that took place in parallel with the other negotiation. So, in agriculture, food and beverages you have some very special deals that were struck specific to that sector that are not necessarily consistent with the approach that was taken, in other parts of the economy, with the United States. An example I can give you there is with respect to technical standards and safeguards. There are some very specific provisions in the agreement applying to agriculture and food in a very precise way.

The final thing that I want to note in general about the agriculture and food sector is that, in a lot of ways, we have half or three-quarters of an agreement in the sense that there are key domestic policy issues that the sectoral advisory group in international trade and the government are continuing to work on at this very minute to make the results of the agriculture and food negotiation as easily adaptable and implementable in the Canadian context as possible.

Later on, if you have questions, I can refer to the two-price wheat agreement and the import control list. Mr. Sterling was referring earlier to the dairy situation. With regard to yoghurt and ice cream there are three or four or five very key domestic policy matters that we are working on and that, in my view, are an integral part of the final outcome of this agriculture, food and beverages negotiation.

I will just say one other thing and that is that we have the unique situation that Ontario, in terms of farm cash receipts, is the number one agricultural economy in Canada. I take issue with the previous witness who was stressing that, in a sense, we are number two or three in Ontario in the food business. But when you take food processing and the fact that so much of it actually takes place in Ontario and it supplies the rest of the country, when you take the overall activity of the agri-food system in this province, one has to be very very careful about the conclusions one draws about the positive or negative impact on the province as a whole. I will get into those details when you ask questions. Thank you.

Mr. Chairman: Do we have questions? Mr. Morin-Strom, Mr. Pelissero, and Mr. Haggerty. Mr. Morin-Strom?

Mr. Morin-Strom: Thank you, Mr. Chairman. I would like to talk about the transfer of cultural concepts which you mentioned. You did not believe it was likely to happen between the two countries.

You state also on page 11 that you do not see any significant change in current Canadian shopping habits. It seems to me that one of the cultural differences between Canada and the US is a contrast between materialism, which predominates in the US, as opposed to a more people- or family-oriented way of life in Canada.

One of the issues that does not fit into your statements on Canadian shopping habits or movement of culture is the issue of Sunday shopping, which is being promoted here in Ontario right now, and in fact to a large degree has been influenced by what has happened in the United States. I understand there is quite a controversy within the retail segment in terms of positions on this. Can you tell us what the position is of the Retail Council of Canada on the issue of Sunday shopping?

Mr. McKichan: As an association, we are absolutely neutral on that issue, Mr. Morin-Strom, because we have members on both sides of the issue. Were we to attempt to find a consensus, it would be an extremely strained one. In fact, it would not exist. We abstain entirely from that question, leaving it to our members to express their views as they wish.

As far as the first part of your question is concerned, I am constantly reminded as someone who had his origins in Scotland--you may have seen a good article on this in the Globe and Mail a few weeks ago--that despite not only the economic union but also the political union which took place in 1707 with the union of the parliaments, I have never yet met a Scot who was in any doubt whatsoever about his cultural integrity. It seems to me that if you hold on to your beliefs with sufficient tenacity, you are not going to be shaken. I think Canadian attitudes and culture are sufficiently strong and developed that if we want to hold on to these beliefs, we will have no trouble doing so.

Mr. Chairman: Including on Sunday shopping?

Mr. McKichan: On Sunday shopping? It is interesting. I just go back to the Scottish experience again. It is an anomaly that in Presbyterian Scotland there is Sunday shopping, but in the more relaxed, free-wheeling England there is no Sunday shopping. It seems to me that if that demonstrates anything, it is only that considerations other than culture influenced the decision.

Mr. Morin-Strom: I guess that in my own community of Sault Ste. Marie I see the pressures that are going to build in the border communities. In fact, in Sault Ste. Marie last September, the local city council itself declared the community a tourist zone. Sunday shopping is now going on in the city of Sault Ste. Marie. With free trade between the two countries, do you not see the pressure for concepts such as Sunday shopping becoming an issue in terms of competitiveness, with retailers in one community versus another, as we have here in Metro Toronto where North York is proposing to go to Sunday shopping and all the other communities are saying, "If you go to Sunday shopping, then we all have to as well"?

Mr. McKichan: I think the current situation has arisen without any influence from the free trade agreement, obviously, because it does not exist. It certainly was not the free trade agreement that prompted British Columbia and Alberta to introduce Sunday shopping in those provinces. I think that influence is rather minimal because, as I say, we do not see any significant increase in customers indulging in cross-border shopping.

Mr. Morin-Strom: Finally, I find it interesting that you state a

consensus of opinion on the free trade issue while you will not state a consensus of opinion on the Sunday shopping issue relating to the retail council. Can you tell us what surveys you have done of your members on both issues and what the results are?

Mr. McKichan: We last did a survey on the shopping issue some years ago. It was apparent that the rifts in the membership were so severe that even the conduct of the survey was divisive in the sense that if we published the results in terms of the majority favouring it one way and the minority the other way, those who were in the minority felt prejudiced as a result because they argued that the situation was sufficiently different that it was not totally comprehended by a mere yes or no.

On the free trade issue, we have consistently had it on the agenda of our various advisory committees and published the results to our membership and encouraged their response. We have not done a formal survey, but the response has been overwhelmingly positive in relation to that.

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Mr. Morin-Strom: You have not done surveys on either issue?

Mr. McKichan: No, not recently. We did it a long time ago on the store hours issue.

Mr. Chairman: Perhaps I should just recount at this point a discussion I had informally on Friday with a Department of State official in the United States about the problems we have with regard to our wine industry. He pointed out that New York state perhaps competes, with difficulty in quality and things of that nature, with California in selling wine in the United States and has developed itself what he called a cottage industry. It has become the norm in New York state to drive into the country and buy a case of wine on a Sunday afternoon, throw it in the back of the car and have it for the winter. The suggestion was that we could do the same here, again posing for us Sunday shopping problems in so far as free trade is concerned.

Mr. McKichan: I think that in the whole universe of the free trade issues, that question is so minuscule as to hardly deserve treatment.

Mr. Chairman: I do not think Mr. Pelissero would agree.

Mr. Pelissero: Considering that, between Mike and I, we have probably 80 per cent of the wineries and about 80 per cent of the grape production in our two ridings.

Mr. Doucet, you mentioned you were chairman of the sectoral advisory group on international trade for agriculture, food and beverages. Where did Benoit Levine fit in? Was he chairman of a different--

Mr. Doucet: He was chairman at the beginning but he had to resign. The second chairman was June Menzies, the former chairman of the National Farm Products Marketing Council and she had to resign about two months ago.

Mr. Pelissero: OK. You mention that agriculture had some special deals. Would you care to comment on the special deal with respect to wine and the price markup and how we were able in other industries to talk about a 10-year phase-in and yet our negotiators managed to agree to a seven-year proposal with a 50 per cent reduction in the first two years as being a

special deal? From representations we have had made to us, the only way that came about was that our negotiators agreed to that seven-year phase-in as opposed to a 10-year or, in some cases, a 20-year phase-in with respect to the vegetable industry.

Mr. Doucet: I will be glad to comment on it. Of course, I was not a negotiator so I do not know all the nitty-gritty, but I think the kinds of discussions that took place in the wine and beer case in Brussels a few days ago are very interesting. In fact, quite apart from the free trade agreement, we are faced with a very specific GATT case brought by the European Community. Unlike the United States in the Canada-US context, the European Community did not appear to be excluding beer, from the reports I read last night.

In the Canada-US context, obviously the negotiators did some choosing. If I were a grape producer, I would be pretty sad to be on the side of the choice they made, but if I were a beer producer and getting beer right out of the agreement and excluded altogether, I guess I would be pretty happy. Obviously, a tradeoff took place in that area and it has gone against the grape producer.

I am delighted to see the Ontario government developing a two- or three- or four-pronged effort to change varieties, replant vines and take some marginal lands out of production. They have a proposal they put to Brussels just the other day. When you see the tough cookies, my guess on the food business is that they are tougher than the United States, and therefore we may just end up with the worst of all worlds in the wine-beer area. We may end up having to buy off the EC with something even more than we agreed to under the Canada-US agreement.

Mr. Pelissero: With respect to the grape industry and recognizing that some kind of transition is going to have to be gone through and also recognizing that the wineries buy a year in advance, even though for the rest of the country in some sectors it will not start until January 1, 1989, the full impact, or 25 per cent of the impact, will be felt by the grape producers in the year coming up. Again, I will not ask you to comment in terms of why the negotiators felt they were making a special deal for the grape producers, but I just felt I had to put it on record.

I have two other questions. Would you comment on the fluctuation of the Canadian dollar versus the American dollar? Would that have any impact on the retail council's position with respect to this deal?

Mr. McKichan: Obviously, the value of the dollar is extremely important in relation to our trading posture with the United States. We do not see any particular threats at the current level. If the dollar were to assume much higher values, obviously it would be a severe difficulty.

Mr. Pelissero: OK.

Mr. Doucet: I would add that in the last four or five months the behaviour of the Canadian dollar, with its appreciation, has been equivalent to a couple of years of phase-in of the tariff cut. The exchange rate is a very substantial issue.

In the case of the food business, we did not do exchange rate studies. We did not have Bank of Canada members on our sectoral advisory group in international trade and some of us felt that was unfortunate. But it is absolutely clear to us, in the food sector at least, that if we get a dollar

approaching 82 cents, the deal has some problems from the point of view of our adjustment to it. Our own studies or analyses show that while we have had these fluctuations in the dollar lately, it would be very unlikely that in the course of the phase-in period we would get more than just a marginal appreciation of the dollar, so we may still be safe. To be very open with you, in almost any case, if the dollar goes well over 80 cents, the benefits of this deal to Canada are going to be hard to find.

Mr. Pelissero: Last question: There was an article put before us today from our legislative research department, from the Globe and Mail of December 24. It said, "Trade Pact Won't Affect Prices, Economist Says." It was the Consumers' Association of Canada. Their guesstimate gives consumers a real savings probably of about two per cent at the end of 1998. Do you agree with the Consumers' Association of Canada with respect to its guesstimate?

Mr. McKichan: The studies we have seen have considerable range, up to close to 10 per cent. Our view is that it is probably more than five per cent but less than 10 per cent. I think once you get into that realm, you are really trying to foresee the future. I do not think it can be all that accurate in terms of these macroeconomic projections.

Mr. Pelissero: The average person on the street, though, my constituent, wants to know when he can go to Buffalo and bring material back across the border duty free. Certainly you have addressed the issue that in fact they are not going to be able to do that, and to some degree I think it is misleading for some of the federal people to be saying they are going to be able to drive across the border and save anywhere from \$800 or \$1,000 to \$3,000 a year because of this free trade agreement.

Mr. McKichan: They are going to be able to save it not by driving across the border but by saving it on the prices they pay in Canada.

Mr. Pelissero: You say between five per cent and 10 per cent and the consumers' association says maybe two per cent, given some scenario. You are basing your prediction on the dollar not going higher than 80 cents compared to the American dollar. I guess if that is the approach we want to take from a federal position, that we are going to peg the Canadian dollar at an 80-cent level, that ties up our monetary policy as well to some degree. The previous submission talked about our political flexibility, but our monetary policy may be further tied, more than it is now.

Mr. McKichan: I think we would have that problem anyway. With 80 per cent of our exports going to the United States, we are in the same position.

Mr. Pelissero: I am not arguing that. All I am saying is that people are using this on the plus side of the column and may be unfairly doing that. I am finished.

Mr. Sterling: There is one point that I do not believe you have touched on and I am just wondering what you think about it. Do you think the choice or selection for the Canadian consumer and the American consumer will improve with this agreement?

Mr. McKichan: Yes, it will. We see that as one of the positive aspects of the agreement. Certainly, the Canadian apparel manufacturers are eagerly awaiting the opportunity to crack the US fashion market. They intend as part of their strategy to move up their quality and design element to be able to do that. At the same time, Canadian consumers should have the opportunity to buy a wider range of almost every type of consumer merchandise.

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Mr. Sterling: The other area that is perhaps being overlooked in this whole matter is the ease with which small businessmen can cross the border and carry on business. While vacationers go back quite easily, I do not know whether a lot of people realize that there are problems at the border unless you answer questions in a specific way to the people who are guarding the borders.

Mr. McKichan: That is right. Anyone who has the experience of going on a business visit finds himself subjected almost to a third degree as he crosses the border at the moment. We very positively received the news that in fact there would be a tremendous relaxation of the business visit regulations.

Mr. Chairman: You are not concerned about the impact on our consumer protection laws from Americans coming over here and usurping some of the roles of the retailers?

Mr. McKichan: They are going to be subject to our laws.

Mr. Chairman: Except for extradition.

Mr. McKichan: Our trade is by no means shaking in its boots as a result of the opportunity for Americans to come here.

Mr. Doucet: Where that is most apparent is in the food sector, where you actually have quality and technical standards. You may in Canada decide that a certain ingredient or hormone is not acceptable, and in the United States, for some reason, in the past they have allowed it. Saccharin is an example.

The really important thing to understand there--in the food business in particular, where I think there would be a lot of sensitivity if it looked as if Canada were harmonizing in the direction of the United States--is that, in fact, they have to respect the laws Canada has, we have to respect the laws they have and, under the agreement, we will acknowledge the inspection services of each country under certain conditions for the sake of facilitating the application of those standards.

There is absolutely no question at all that if Canada, on a scientific basis, makes a decision, that decision can be overturned by an American position. We want to get politics out of the technical standards. That is what we want to get out of them, and as long as the scientific base is there, nothing really is going to change. If Canada decides something is banned, it remains banned.

Mr. Haggerty: I was looking at your document on page 2, following Mr. Pelissero's questioning. It says that there will be "a reduction in prices, including the prices of many consumer goods available in Canada. That expectation is borne out by most of the economic studies utilizing econometric modelling which we have seen." So we have a computer model taken here:

In the document from the federal government on free trade it goes on to say that the cost of living of low-income families will decline by three per cent, or about \$325 a year, and for middle-income and high-income families the reduction will be two per cent, or about \$800 a year. It goes on to say, "the average family of four will save between \$85 and \$130 annually on food expenditures."

Mr. Chairman: Is that a document you received from the federal government, Mr. Haggerty?

Mr. Haggerty: It is entitled, The Canada-US Free Trade Agreement and Canadian Consumers.

Mr. Chairman: Oh, I am sorry.

Mr. Haggerty: It goes on to say, "The typical middle-income family will pay up to \$8,000 less to establish and furnish a home." That is a pretty broad statement, I guess, by the policymakers or from studies done by the federal government in this area.

Can you assure us that the Canadian consumer will be getting a break on imported goods coming into Canada? If I am not mistaken, in the federal white paper on tax reform the federal government indicated, and even in the Macdonald report it indicated, that there should be a sales tax on all consumer goods, and that is particularly on food. We know by looking at the present trade barriers that might be there, or the tariffs that are on food coming in from the United States now, that there is a loss of revenue to the federal government.

I do not know if anybody has ever come up with a numbers game, how much this loss is to the federal government and how it will recover that tax loss without some form of tax increases. I have strong feelings that once this agreement goes through, the impression left by your document that consumers will get a break in it--I do think they will, because they will be coming in and applying some measure of taxes on that to pick up the loss.

Mr. McKichan: I will respond to Mr. Haggerty's question in part, and then I will ask my colleague to touch on the food situation.

So far as the new commodity tax is concerned, the federal Minister of Finance has indicated that the tax is not to apply on food products.

Mr. Haggerty: He is saying that now, before an election. It might be his last one. Let us hope it is.

Mr. McKichan: As I understand it, there may be some tradeoffs between income tax and sales tax. We do not know that yet. I have not heard anybody say there will be a tradeoff between tariff revenues and sales taxes.

Mr. Doucet: You are raising a good point. When all of the tariffs are gone after a 10-year period, in terms of revenue to the federal government you are talking about \$2 billion. The speculation in the press is that either the deficit is going to go up or, by that year, it will have been compensated for through general tax revenue from higher performance of the Canadian economy. That is the position Mr. Wilson is taking.

On the food side what I think is important to stress is not that you are going to wake up one day and see a specific reduction in the prices in your local grocery store. What you are going to see is a tempering of the rate of growth of food prices over a 10-year period. They go up right now by four per cent to five per cent a year. You are going to see a tempering of that rate of growth. That is a positive impact that Mr. McKichan has taken into account in his paper. But will the actual consumer realize that on day one, two or three he has more money in his pocket? I would say, when it comes to the food sector, that that will not be clear. It will be clear in cases like housing,

where you are buying a house that has many components in it, and when you add them all together, according to the Finance paper, there will be that major impact.

In my own view, on the food side it is going to be an almost imperceptible change over a 10-year period in terms of price. That is why I question the Ontario Ministry of Agriculture and Food study saying that this deal is bad for Ontario agriculture. Their assumption is that farm incomes go down and they go down in an absolute sense like that. I cannot agree with that.

Mr. Haggerty: It has been going down considerably on both sides.

Mr. Doucet: It went down in the last two months because the exchange rate went up as well. The farm income in Ontario is under seige for a lot of reasons, but to piggyback the Canada-US agreement on that in the sense that it is going to produce lower absolute incomes for the Canadian farmer, I simply do not agree.

Mr. Haggerty: But I think the concern raised by a number of the committee members here is about the exchange rate, if there is a considerable variation in the exchange rate. I have indicated to the committee here that reports coming out of Washington have indicated that the American dollar will go down seven per cent more. That is conservative and it will get you well over the 80 factor that you mentioned. You said, "Well, if it gets to that factor, we might as well shelve the free trade deal."

Mr. Doucet: Those were not my words.

Mr. Haggerty: You flagged it at about 80 per cent. You said it does not become--

Mr. Doucet: At an 82-cent dollar you have to really redo all the numbers and ask, what are the benefits and what are the costs? In my own view, at 82 cents, in the food business we would have some difficulty implementing this agreement. I do not expect an 82-cent dollar in the course of 10 years.

Mr. Chairman: If I may just comment, I am not sure whether you were really covering this or not. I think the Ministry of Agriculture and Food was also concerned about the eventual sourcing of products in the processing industry.

Mr. Mackenzie: I just wondered if you have any feelings or prediction, in terms of the Canadian dollar, as to what is likely to happen over the next few years. Do you see it staying where it is, decreasing or increasing?

Mr. Doucet: We began the negotiations at a 75-cent dollar. The last time I looked, it was 78 something. I do not know what it is today, but I certainly cannot predict where the Canadian dollar is going to go. The key adjustment mechanism in our economy in terms of this free trade deal is the value of the dollar. If those who claim that food processors in Ontario are going to pull up and go to the United States are right, our dollar will fall. On the other hand, I believe we will resolve some of those basic supply problems for the food processor through certain domestic policy actions; we will continue to be a major processor in Ontario, Ontario will be an even stronger economy and it just might be that the dollar will edge up a bit, but I cannot predict where it is going to end up.

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Mr. Mackenzie: What is your reaction, then, to the study of the ministry, the Finance people, which was based on a moderate improvement--I think two per cent or whatever it was--and 120,000 jobs? It was based on the Canadian dollar falling 3.5 cents over the next five years. They certainly said they had never done a similar study with with an increase and they admitted that an increase would yield a totally different result. I have yet to have anybody before this committee tell us he thinks it is going to fall 3.5 cents over the next five years, and that is why I asked you the question. It does not seem too likely, then, I take it, from your response.

Mr. Doucet: If the Canadian economy, through this free trade deal, is going to be a stronger economy, which I believe it will be, you would normally have expected some appreciation in the value of the Canadian dollar. Now, the deal was negotiated in the context of 75 or 76 cents. We may already have seen some of the positive impact of the signing of the agreement; I do not know. But I certainly do not expect, personally, to see the Canadian dollar go through the ceiling of 82 cents.

Mr. Mackenzie: Assuming it was negotiated in the 75- or 76-cent context, then, that is another reason I think maybe we should have the ministry people back. I am presuming that the 3.5 cent drop over five years meant they were looking at a 71- or 72-cent dollar.

Mr. McKichan: I just add that if, in fact, the economy thrives and, as a result of that, the Canadian dollar rises, it seems to me we are going to get our benefits either way. You could say we are going to get extra employment as a result of the additional economic activity. It would not matter where we got it as long as we got it.

Mr. Mackenzie: Once again, you are at odds with the ministry presentation. One, they would have a different picture from the success story they related if the dollar rose, and yet they were basing their moderate improvement on a 3.5-cent drop over five years. There is something haywire in what we have been presented here in this committee.

Mr. Chairman: Any other questions? Thank you very much. Your presentation was very helpful. We will certainly take it into consideration in our deliberations.

Members of the committee are reminded that the Attorney General (Mr. Scott) will be here at one o'clock.

Mr. McCague: Are there any changes in the program for the rest of the week or any Friday sittings?

Mr. Chairman: No, there is no Friday sitting, but Wednesday and Thursday will be hefty days: Wednesday, the Ministry of Consumer and Commercial Relations at 10 o'clock, Coalition Against Free Trade at 11 o'clock, etc.

Mr. McCague: We have the program. What I just noticed last week and again this week is the lack of notice when things change. It is inconvenient for the out-of-town members, as you may well have experienced this morning.

Mr. Chairman: Some of the changes have come from cancellations--

Mr. McCague: Sure, I understand.

Mr. Chairman: --which have been incredibly coincidental. For instance, the two yesterday both occurred within minutes of each other, for seemingly unrelated reasons. But to our knowledge, at this moment--Mr. Carrozza can correct me if I am wrong--we have a full slate of witnesses for tomorrow and Thursday. We will be free Friday. We have a full slate this afternoon starting at one o'clock with the Attorney General, and we have copies here of his address to the Canadian Bar Association if you want to take a peek at it over lunch, again.

The committee recessed at 11:55 a.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

TUESDAY, FEBRUARY 2, 1988

Afternoon Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)
Haggerty, Ray (Niagara South L)
Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Neumann, David E. (Brantford L)
Nixon, J. Bradford (York Mills L)
Pelissero, Harry E. (Lincoln L)
Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Dietsch, Michael M. (St. Catharines-Brock L) for Mr. J. B. Nixon
Nicholas, Cindy (Scarborough Centre L) for Mr. Neumann
Sterling, Norman W. (Carleton PC) for Mr. Villeneuve

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of the Attorney General:

Scott, Hon. Ian G., Attorney General (St. George-St. David L)

From the Automotive Parts Manufacturers' Association of Canada:

Lonmo, D. Victor, President

Filger, Harvey, Director of Business Affairs

From the Ontario Chamber of Commerce:

Brophey, Peter M., President; Vice-President, Corporate Affairs and Director,
Xerox Canada Inc.

Armstrong, John, Member, Canada-US Trade Committee; Manager, Trade and Tariff
Affairs, Dofasco Inc.

Sanderson, John, Chairman; Vice-President, Public Affairs, CP Trucks Ltd.

From the Canadian Manufacturers' Association, Ontario Division:

Thibault, J. L., President

Stewart, J. M., Chairman; Senior Vice-President, Du Pont Canada Inc.

Caldwell, Barbara, Member, Executive Committee; President, Cleanwear Products
Ltd.

Walter, D. P., Director; President, E. F. Walter Ltd.

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday, February 2, 1988

The committee resumed at 1:13 p.m. in room 228.

ORGANIZATION

Mr. Chairman: Perhaps we can get started with some housekeeping matters while we wait for the Attorney General (Mr. Scott).

The committee has indicated its desire to travel to Washington on the week of March 21 in preference to other times. Apparently, Mrs. Oberstar has booked another group that week, so the residual week is now the week of March 28. The problem of March 28 is that it is Holy Week, which means that Friday, April 1, is Good Friday. In her view, there is a possible movement from the capital towards the middle of that week.

She is suggesting April 11. It is my understanding that the House is resuming on April 5, so I simply throw that out to the committee for consideration. Do you want to try March 28 in any event? Conceivably, it might be possible to do some work on the Monday of that week.

Mr. Mackenzie: Is it possible to find anybody else as a contact? Admittedly, from everything I hear, she has been effective, but it may be that you are not going to make the arrangements through her.

Mr. Chairman: I am not aware of anyone else, but there probably are others, yes.

Clerk of the Committee: Excuse me, Mr. Mackenzie. Are you saying for the 28th?

Mr. Chairman: Yes.

Clerk of the Committee: She will try to do that for the 28th.

Mr. Chairman: Oh, no. You are talking about the 21st.

Clerk of the Committee: The 21st? No, she has a--

Mr. Chairman: We are talking about whether there is someone else.

Clerk of the Committee: I do not know. I can inform myself of that.

Interjection.

Mr. Chairman: We could use the embassy again, conceivably.

Interjection.

Mr. Chairman: We are just discussing travel to Washington. Mrs. Oberstar is not available to assist us the week of March 21, but she is any time thereafter. She suggested April 11, which is a week in which the House is sitting. It is not impossible, of course.

Mr. Mackenzie has suggested that we look for someone else to guide us through the week of March 21.

Mr. Ferraro: Well, either that or the subcommittee. I am not sure that would even be allowed. I do not know what the House leaders will say. They will probably say no, but at the very least, because that is the only alternative, the subcommittee could go.

Mr. Chairman: I am sorry. You are suggesting that the subcommittee discuss it?

Mr. Ferraro: I am saying that, as an alternative, if in fact you cannot get somebody capable enough to take Mrs. Oberstar's place, I do not believe the House leaders will let a committee go when the House is sitting. I stand to be corrected, but at the very least, maybe a subcommittee would be allowed.

Mr. Chairman: Oh, I see, the subcommittee to go to Washington. Any comment on that?

Mr. Morin-Strom: I think we should do it, but we have to do it while the House is not sitting. I do not think it is realistic to travel when the House is sitting.

Mr. Chairman: All right. I think the message is to try the 21st with someone else.

The choice, then, is threefold: One would be not to go at all; one would be to go the 21st and find someone else to organize it; and one would be to go the 28th with Mrs. Oberstar.

Mr. Mackenzie: Is it possible to find out if our contact in Washington is able to recommend anybody else?

Clerk of the Committee: We will try.

Mr. Chairman: Ok. Perhaps you can do that and get back to us.

Mr. Mackenzie: We could do it through the embassy again. I am just going on the basis that the third trip down there was more effective with her work than it was through the embassy.

Mr. Chairman: Yes.

Mr. Ferraro: Mr. Chairman, one last comment. Personally--and the committee may hate me for saying this--I seriously question going down to Washington. If we are going to go down, I think you should have somebody, maybe Mrs. Oberstar or somebody similar, who is going to make it worth while. We have been down there three times and, quite frankly, I still believe that if we are going to do something as a committee, it makes more sense for us to start looking at the General Agreement on Tariffs and Trade. I think the media coverage, quite frankly, and the interaction we are getting back from Washington are overwhelming, to say the least, and what another trip to Washington will do I am not sure, but I do strongly encourage the committee to give more consideration and more attention to GATT.

Mr. Mackenzie: I have no difficulty with taking more of a look at GATT, but I would remind the honourable member that what we are dealing

with--and the crucial period is the next few months--is the deal with Washington. I think it would be of some use for this committee not only to talk to some of the members and senators down there but also to see what we could do--and maybe this is what people do not want, I do not know--in terms of outlining to the people we talk to that there are some serious questions up here and what they are. The lack of knowledge about our position amongst even the elected Americans was pretty obvious in the previous trips.

If you do not want to go, fine; that is what you should say here. But otherwise, I think it is Washington, not some trip to GATT, that we should be looking at.

Mr. Sterling: I think, though, that there is no sense going to Washington unless you have some kind of idea of what you are going to do there. If there is a problem with finding that, then there is no sense in saying "Let's go" for the sake of going. So why not have you, Mr. Chairman, meet with the subcommittee and the clerk and see if you can figure something out, and then come back and talk about when and what it is. I have no desire to go down there and see two people or whatever just for the sake of going to Washington to try to make a few marks.

Mr. Chairman: Am I hearing, then, that perhaps the subcommittee should discuss this in greater depth? Perhaps the subcommittee could get together, maybe tomorrow noon?

Mr. Sterling: Has Mr. McLellan been involved in this at all in terms of Washington? Have you been assisting?

Mr. McLellan: Making arrangements?

Mr. Sterling: Yes.

Mr. McLellan: No, I have not.

Mr. Sterling: Maybe you two could get together and see if you can-- You have just been down there, and some of the connections with that particular conference might be able to assist you in some way.

Mr. Kozyra: Mr. Mackenzie's suggestion of having a recommendation from Mrs. Oberstar, I think, is the way to go. Surely she has knowledge of other contacts and, under the circumstances, she is the one who can meet our time commitments. She would be willing to, since the third one she has offered is unacceptable.

Mr. Chairman: Your recommendation would seem to be April as opposed to March simply because of logistics, but I think she is also saying that the last week of March is quite conceivable. It just may be that we would pack it into an earlier part of the week than normal. I am gathering that that week of March 28 is maybe what we should be working on. OK?

Mr. Pelissero: As long as we are back by some time on Thursday.

Clerk of the Committee: There is a flight leaving (inaudible) Washington.

Mr. Chairman: Yes. We would be back Thursday, in any event. I think what we are talking about is curtailing what would normally be Thursday, and that is because of others leaving on Thursday. There is no question about whether we would be through--

Mr. Pelissero: Leaving Thursday morning or Wednesday night. I am saying Thursday evening getting in, getting in Thursday afternoon is not--

Mr. Chairman: Not good enough for you.

Mr. Pelissero: --not good enough for me, particularly if somebody like Mr. Kozyna then has to try to catch a connecting flight on Good Friday, which to me does not make any sense.

Mr. Chairman: Why do we not try to get her to work for a full day of work on Monday--some things must happen in Washington on Mondays--Tuesday and Wednesday, the 28th, 29th and 30th.

Clerk of the Committee: Departing on Wednesday night.

Mr. Chairman: Yes, departing on Wednesday night or, at the very latest, early Thursday morning. Probably Wednesday night would be cheaper. All right?

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Clerk of the Committee: Is that agreeable?

Mr. Chairman: Ok, I think we have a consensus on that.

The other thing in which this committee really should be involved, in the view of the chair, before it is able to do a report to the Legislature, would be to do some travelling inside our own province. We have had some witnesses who have come to us from the north. We have had cancellations from the Niagara Peninsula because of, in at least one case, weather. I think it would be showing our concern for the different perspectives in different regions if we did that.

I have not sensed a lot of enthusiasm from the committee for that. I have raised it on a few occasions. I am not sure now that can be done before the House resumes sitting at the beginning of April, but I just raise it again.

Mr. Morin-Strom: What are we going to cancel in its place?

Mr. Chairman: As I say, I do not see it being done between now and the beginning of April, but maybe it is something that will happen a little later. Conceivably it could happen a little more easily when the House is sitting than if we were leaving the country. I do not know.

Mr. McCague: Where was this series of hearings advertised?

Clerk of the Committee: It was advertised in all the dailies in the province.

Mr. Chairman: The advertising was very tentative on the issue of travel. I think the wording was "if--

Clerk of the Committee: Numbers warrant.

Mr. Chairman: --numbers warrant."

Mr. McCague: Has the clerk had any indication of any particular interest outside of those we have been able to accommodate here?

Clerk of the Committee: I have knowledge of three individuals, one from Wawa, one from Watford near London, and the Oshawa area is the third. Those are the three individuals who have notified my office. They would like to see the committee when it comes in their area.

Mr. McCague: Does Mr. Fulton have the GO train running yet to Oshawa?

Clerk of the Committee: No, but we can go by bus.

Mr. McCague: That does not seem like sufficient interest for us to be considering chasing them.

Mr. Sterling: We can offer those individuals--where is it? Wawa?

Clerk of the Committee: Watford and--

Mr. Sterling: If only three have indicated, I am sure the committee could pay their way down here and have them present to the committee here. That is fine by me. We have done that before. We will probably save a lot of money in the long run anyway.

Mr. Chairman: Is that the committee's wish?

Mr. McCague: I think you should be cautious about offering assistance for transportation to somebody from Oshawa. I do not know who it is at all.

Mr. Sterling: It is probably Breaugh.

Mr. McCague: Wawa is a little more difficult. There are probably enough government members in London to make sure that the person from Watford got here without cost to the committee.

Mr. Chairman: Perhaps we will review and discuss with these witnesses how they can get here and we will be cautious with regard to anybody from Oshawa.

There are copies here of the Ministry of Agriculture and Food brief that Mr. Sterling mentioned this morning. I think they may be distributed to your office today, but if you have not got them, we have them here as well.

Is there any other business anyone wants to raise?

Mr. Sterling: I move we adjourn.

Mr. Chairman: We will adjourn until we see the whites of the eyes of the Attorney General.

The committee recessed at 1:24 p.m.

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ATTORNEY GENERAL OF ONTARIO

Mr. Chairman: We welcome you to our committee. We have invited you here particularly to discuss the content of the speech which you delivered to the Ontario corporate counsel and business law section of the Canadian Bar Association on December 15, in which you outlined an argument concerning the

giveaway of provincial powers to a foreign country. I do not know whether, sir, you wish to make an opening comment. If not, I have already got the rudiments of a list of questioners.

Hon. Mr. Scott: Perhaps, Mr. Chairman, if you and the committee members will permit, I can explain what I was trying to do in that speech and what led up to it.

First of all, it is an obvious matter that the powers of legislatures to enact legislation are defined by the British North America Act, sections 91 and 92. They are said by constitutional lawyers to be watertight compartments so that all power to act in all ways in all matters is given either to the provinces or to the federal government, subject to the charter, of course, which can intervene. However, all power to act in the interests of our fellow citizens is divided by the Constitution either in favour of the federal government or in favour of the provinces.

One of the powers on the federal side that is undoubted is the trade and commerce powers. One of the powers on the provincial side that is undoubted is property and civil rights within the province, which is a term that is given very broad signification by our courts over 100 years.

For these purposes, another power on the federal side that is clear is the treaty-making power. That is to say the federal government alone has the authority to make a treaty with another state. At base, my first obligation was to recognize the federal nature of this country. It does not always make us happy, but it is a reality that we have to grapple with.

When you come to the free trade agreement, you recognize first off that what we have so far is a treaty which is proposed to be made between Canada and the United States. The provinces are not parties to it and the states are not parties to it. It is the federal government in each case that is making a treaty. In Canada's case, it is undoubted that the federal government has the right on behalf of all Canadians to make a treaty with the United States or any other country.

We next turn to the subject matter of the treaty because the question immediately arises, what happens if the federal government makes a treaty and promises to do certain things that it has no power to do? For example, to take an absurd example, if it made a treaty with the United States to end the municipal form of government in each of the provinces, it would immediately be said, "Yes, the federal government has the power to make that treaty, but does it have the power to enter upon the provincial sphere of jurisdiction and carry out the promises it made under the treaty?"

That question has been decided for us by the Supreme Court of Canada in a case called the labour conventions case in which it basically held that while the federal government has the power to make a treaty, the federal government in Canada does not have the power to implement that treaty in areas of provincial jurisdiction. That is why in our Legislature, when a treaty is made to advance some interest of the United Nations, perhaps having to do with arbitration--this committee will have seen certain bills in that behalf--the provinces are asked to implement it within areas of provincial jurisdiction. It is precisely because the federal government has no power to implement it in areas that are exclusively provincial under our Constitution.

Having said all that, there is no question about the right of the federal government to make the treaty. They could not be stopped by a province because that is clearly a federal responsibility.

What is the impact of this treaty upon a province like Ontario? The first thing to observe is, of course, that the Prime Minister of Canada has said the treaty is 97 per cent federal. I do not accept that proposition. I agree it is 100 per cent federal if all you are talking about is the capacity to make a treaty, but if you are trying to measure its impact on our powers, it has very significant impacts in areas of provincial jurisdiction.

The impact on the provinces, for example, is made clear by the "Extent of Obligations" clause, article 103, which states that the agreement applies to provinces unless they are specifically exempted. Other provisions in the agreement deal with matters such as energy, investment, services, public monopolies and wine and spirits, all of which are within provincial jurisdiction.

The other interesting thing about this treaty is that unlike the GATT, it imposes on the federal power the obligation to ensure provincial compliance with the treaty. In that sense, obviously, it is intended that the federal government will in some way ensure the compliance of each of the provinces where provincial impacts are anticipated.

On the United States side, that is not as difficult as it is in Canada because of the American "trade and commerce" power. It is a very broad power and gives very broad authority to the federal American government with respect to any commerce that goes over a state boundary, which in a modern age is almost all commerce. We have no "trade and commerce" power of that dimension under our Constitution. We have these two watertight compartments I have described and it is an interesting question to know how, in the light of the labour conventions case, the federal government in Canada intends to ensure the compliance of the provinces with all the provisions of this agreement and the provisions that will flow over the next seven years as the negotiations on subsidies, for example, develop.

What we confront, I think, is that the United States can now, if this treaty is effective, invoke against Canada and its provinces a treaty obligation in order to require our federal government to intervene in areas that under our Constitution are areas of exclusive provincial jurisdiction. How the federal government proposes, in constitutional terms, to do that remains to be seen. They have not said and our efforts to inquire of them how they propose to do it have not met with success. But they have promised to do it. What I foresee, therefore, is that we will have to carefully observe how they intend, in the implementation process, which is over a year away perhaps, to breach these section 91 and section 92 constitutional watertight compartments.

The other difficulty about the exercise--I will say it very shortly--is that our federal government took upon itself in this treaty to ensure that the treaty obligations would be imposed willy-nilly on the provinces. They in effect abandoned a developing system of government in Canada over the last 40 years known as "co-operative federalism" in which both levels of government, on a wide variety of issues, had met in order to adjust their difficulties so that the operation of life in a federal state could be carried on.

A wide range of issues over the last year--telecommunications, energy and so on--where there were disputes and difficulties between the federal interest and the provincial interest were resolved by a negotiating process with the provinces on the one hand and the federal government on the other in which there were tradeoffs and adjustments made in the interests of the country as a whole. That was known as "co-operative federalism" and was a

model that has worked extraordinarily well, and indeed, under the present Prime Minister has worked well to the advantage of all Canadians.

This treaty, if implemented by the American Congress and if the federal government seeks to ensure its compliance, marks an end to co-operative federalism because the compliance will be triggered not simply by Canada, the federal state, asking the provinces to act, but by the United States, the other treaty-making power, intervening either through the tribunal or elsewhere to say, "Ottawa, whether you want to or not, you are now obliged to ensure provincial compliance with this or that provision."

It was in that sense that I said in the speech that this is a major constitutional change. It is not a constitutional change in the sense that any words in the Constitution are going to be altered. There are clearly going to be no words altered in the Constitution. We would have to be consulted on that. But it is a major constitutional change in the sense that for the first time in Canadian history of which I am aware, a federal government, in the exercise of its treaty-making power, has said, "We will override the provincial interest if necessary to comply with this treaty and act at the request of a foreign power to do so."

As I say, how they propose to do this under our constitutional regime, I cannot say and have some difficulty imagining, but the reality is that is the promise Canadians, by the treaty, make to our American friends. It will be interesting to see how it is to be implemented and it will be interesting to see how our federal system is altered as a result of that exercise.

That is really all I have to say. I think the speech was shorter, Mr. Chairman.

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Mr. Sterling: The first question I have for you is, was this opinion the same opinion that you had prior to Premier Peterson going to Nova Scotia some two years ago?

Hon. Mr. Scott: I must tell you that when we went to Nova Scotia--I went with him on that first conference--we were the new boys on the block in that exercise. When the discussion of free trade came up, our Premier took a leading role in the debate that ensued.

I think there are two things to observe about what happened there.

First of all, the kind of free trade agreement that we were contemplating and I believe that the Prime Minister of Canada was contemplating was very different than what has now been produced. He envisaged, I believe--and we certainly envisaged from his words--the kind of arrangement that Sir Wilfrid Laurier and the Americans proposed in 1911, in which there would be a frank recognition that the impacts occurred evenly across the federal and provincial power, in which the labour conventions case would have to be invoked and all the provinces would require to be consulted. You will remember, coming out of that conference, that was the message. All the provinces agreed that we were parties, in the words of Premier Devine, to the negotiations.

That did not happen. We were not parties to any negotiations at all. It is true that from time to time the premiers were briefed in a general way as to what was happening in the negotiations, but we were not parties to the negotiations in the sense that phrase normally connotes.

The second thing that happened, of course, is that the agreement, because of the ensure-compliance provision, was a very different kind of agreement than anybody--I should say anybody on our side--had expected to produce. But if you had presented me in November two years ago with the ensure-compliance agreement of the type we now have here, made under a treaty-making power, I think the issues I would be presenting would be exactly the same.

Mr. Sterling: At that point in time, did you or did you not have an opinion on the legal status of the province to veto an agreement?

Hon. Mr. Scott: I believed that no federal government could make a treaty that impacted on provincial powers, because that is what the labour conventions case said, and I believe that now.

Mr. Sterling: So you believed at that point in time that the Premier had a right to veto the agreement in effect by nonimplementation.

Hon. Mr. Scott: I never believed--and no one could have believed--that he had the right to veto a treaty. No provincial Premier has the right to veto a treaty. We believed that if a treaty impacted on provincial areas of responsibility, that province would be asked to implement the treaty in its Legislature. That traditionally has happened. I have a couple of bills in there now where we are trying to implement a treaty in precisely that way. In that sense, in so far as Ontario was asked to implement it by legislation, we, the province, would have the right to veto it. We would say, "No, we are not going to pass that legislation."

But that is not what the federal government has done in this case. It is not, as far as I can tell, asking us to enact anything. It is simply saying that it is going to ensure compliance by us. If they ask us to enact something, we will then have the right of veto, in the sense that the Legislature may not want to enact it, but if they are going to ensure compliance by some other method--I cannot imagine what it is at the moment--we may not be consulted at all.

Mr. Sterling: By the very act of asking you to comply, they are then yielding to your case. Is that not so?

Hon. Mr. Scott: They have not said they are going to ask us to comply. All they have said is something they have said to the Americans.

Mr. Sterling: No, no. That is not the question. The question is that it puts their legal case less strongly before the Supreme Court of Canada, if it comes to that, if they do ask you.

Hon. Mr. Scott: I would not say that. I would have thought that if the federal government sought some change to be made within an area of exclusive provincial authority, it would do what the federal government has always done; that is, go around to the provinces and ask them to pass an act to implement the treaty in this area of exclusive provincial authority. If they had done that, each of the provinces would have had to comply. As far as we can judge by the terms of the treaty, they have indicated that they do not propose to do that.

Mr. Sterling: In terms of the United States situation and the federal government, amendment 14 of the Constitution makes it clear that a state must fall in line with regard to a federal treaty under the "good

government" clause in the Constitution. If that is not the case here in terms of the power of our federal government, then what kind of treaties or trade treaties or trade and commerce treaty can our federal government ever enter into which in any way impacts any of the section 91 powers of the provinces?

Hon. Mr. Scott: First of all, it is clearly not the case under our federal system. Whether we like it or not, let us remember that we are a federal system and the Americans, in a very large measure, are not a federal system. We are a much more pure federal system, for better or for worse in this country, than the Americans are. We do not have such a provision in our Constitution. That is the first thing. Indeed, our highest court has said that the treaty cannot be enforced by the federal government by legislation on a province. That is the labour conventions case.

That has created a certain amount of difficulty in a number of areas. The federal government wanted to enter into a treaty to ensure commercial arbitration standards across the world--an important and highly critical commercial issue for the business community. They made the treaty. They came to each of the provinces. They did not say they would ensure compliance with the treaty. They knew they could not. They came to each of the provinces and they asked if we would pass the implementing legislation, and we are in the course of doing that. That is co-operative federalism.

When it came to the GATT, the federal government did not say it would ensure compliance. It built in a mechanism, which is essentially a best-efforts mechanism, that the federal government would utilize its best efforts to get the provinces to go along. I believe this is entirely novel. It is very critical, because Mr. Yeutter in the United States originally said he would require the undertaking of the provinces. I do not know whether he is saying that now, but obviously the federal government, knowing it could not get the compliance of all the provinces, is saying, "Do not worry, Mr. Yeutter, we are going to ensure their compliance." I do not know what that means for us, but I know it means major constitutional impacts.

Mr. Sterling: Earlier in December, Dr. Fairley, a constitutional law professor at the University of Ottawa--

Hon. Mr. Scott: He is awfully young to be called "Doctor."

Mr. Sterling: --came in front of this committee. He does not agree that sections 91 and 92 are as compact and airtight or watertight, or whatever it is, as you would put forward. I asked him the question and I said, "If push comes to shove and the provinces do challenge the trade and commerce power of the federal government, the provinces risk getting the wrong answer back."

His response was: "I think that is quite clear. I will just refer very quickly to the Canadian National transportation case. The Attorney General (Mr. Scott) is aware of this, I am sure. The general trade and commerce power is right now, I think, a loaded gun pointed at provincial authority. Exactly how it will go off and whether it will hit the bull's-eye remains to be seen. But Chief Justice Dickson said in the Canadian National transportation case a useful quote I will just throw out to you. 'Every general enactment will necessarily have some local impact....' That is Mr. Scott's argument in this speech: local impact, local impact, local impact."

conception of general interest will endanger the very idea of the local. However, there are equal dangers in swinging the telescope the other way around.' Then he says, 'The forest is no less a forest for being made up of individual trees.'

"I suggest to you"--and this is Dr. Fairley talking--"that what we have in the free trade agreement is a very large forest, the largest we have ever seen or are ever likely to see. It is a comprehensive deal sweeping the whole country into a free trade area."

Then he says later in his summing up to the committee--in fact, it is the last paragraph of his presentation to us--"The practical matter is that either government can terminate this thing on six months' notice." He is talking about the American or the Canadian government. "What Ottawa is doing is saying, 'We have the power to implement this agreement and that is what we are going to do.' While Mr. Scott has his view of what provincial jurisdiction is in these various areas, Ottawa has its view of what its jurisdiction is; I think that is where the argument really lies.

"Provincial jurisdiction is not being put in an envelope and sent to Washington. I, for one, cannot go that far. I think the areas Mr. Scott has suggested are areas that are arguable, but with all due respect to Mr. Scott and whoever is giving him his advice, his ground is probably no more solid than that of Mr. Mulroney. You can pick your side."

Hon. Mr. Scott: You did not think I made this up for myself, eh? You obviously thought someone was telling me this.

Mr. Sterling: Well, obviously.

Looking at Dr. Fairley, and I assume that his is an objective view of the law in relation--

Hon. Mr. Scott: Look, we are talking about the Constitution and there are going to be very many views about this question. The reality is that he joins issue with me. He and I recognize the importance of this issue together. I start into the decision of that issue with a decision of the Supreme Court of Canada in my favour. As a practising lawyer, I have got a little something going for me. The other side of the case has to get rid of that decision.

What Professor Fairley is really focusing on is the extent to which the present Supreme Court of Canada will reverse a decision of a previous Supreme Court of Canada that has stood as the law of the country for a very long time. He may be right. The Supreme Court of Canada has the power to reverse itself and it has rarely, but it has done so and it may do so. It may say that the labour conventions case is not the law any more. I do not believe that is likely to be the result, and I frankly think he does not advance his case by relying on a dissenting judgement of the Chief Justice of Canada in the northern transportation case.

I have great respect for dissenters, and some of our great judges are dissenters, but the dissenting judgement is not the rationale of the case in any case. Chief Justice Dickson, a truly distinguished jurist, was not part of the majority in that particular case. When Professor Fairley says at the end of the day, from the report you have read, that it is a toss-up, I think it is not a toss-up. I think the federal government is off on a very difficult legal exercise where it is going to have major difficulties.

Even if they win--let us assume that case came to the Supreme Court of Canada, Professor Fairley's prediction was right, there was a reversal of the labour conventions case and we all had to live with it. If that happened, and it might--I do not think so, but it might--from that moment, we would be living in a very different kind of country in federal terms from the one we live in now because we would have given to the federal government, by Supreme Court edict, an enormous power to shape the economic life of the country in big matters, which is fine perhaps, and in very small matters.

The fear I have is that federalism as we understand it is absolutely critical to this country because of its regionalism, and if Professor Fairley is right, we had better understand that we are moving into a new world in which our concept of federalism is going to be displaced by one that is fundamentally different from what we have now.

Mr. Sterling: Yes, but it comes down to this. The choice is yours whether or not co-operative federalism lives on because you have to challenge it, in effect.

Hon. Mr. Scott: If co-operative federalism means doing everything the federal government asks us to do, whether we like it or not, in areas of our exclusive jurisdiction, I do not regard that as federalism of any kind. That is simply to move to a unitary state.

Mr. Sterling: I am talking about a trade and commerce treaty with a certain other national government.

Hon. Mr. Scott: But the way we in this country have traditionally responded to problems where there was a national view that decisions should be made across the country in areas of exclusive provincial jurisdiction--and that is what we are talking about--is to go to each of the provinces and say, "Will you invite your Legislature to make these changes?" That is what co-operative federalism is, and it has never been easy. It has always presented difficulties, but it is the way over the last 40 or 50 years we have succeeded in governing a country where there are many sectional interests that change and shift.

On the other hand, if the view is--and I take it this is the view--that the federal government is going to enforce this in some mysterious way without that exercise, that is a constitutional change of really significant proportions that, in my view, makes Meech Lake look like nothing.

Mr. Sterling: But the consensus in Canada is for the agreement, sir. Seven out of 10 provincial governments are supporting the agreement.

Hon. Mr. Scott: I, of course, take the position and the same view that the consensus in the Legislature is unanimous because 95 members adopt a certain view and only 32 or 33 have another view, but I do not think that is a fair statement about life in the Legislature any more than it is a statement about life in this country.

The reality is that you have one significant player from each region of the country who is opposed. You can say, if you want to, "Oh, well, Prince Edward Island does not matter" or "Manitoba does not matter," but this is not a regional debate. Manitoba is as western a province as you can get, and God knows--my ancestors having come from there--Prince Edward Island is as maritime a province as you can get, at least until they connect it up.

So it is not a regional debate. It is an issue that cuts across the

regions, and whether there is consensus or not, I suppose, is a question of what you mean by that. Certainly a majority of the provinces support it if that is the question.

Mr. Sterling: Well, Minister, having looked at it--

Hon. Mr. Scott: Can I add one other word? The interesting thing about the public debate is that the majority of the provinces support it. That is the point I think you are making when you use what I would call the inappropriate word, "consensus." I read in the press--and I do not know whether this is so or not--that some of the other provinces that are supporting it were not prepared to do so until they get letters from the Prime Minister.

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I also read in the press--I do not know whether it is true--that the Premier of Nova Scotia received a letter from the Prime Minister which was not satisfactory, and so he got another letter from the Prime Minister which was satisfactory, and then he announced that he was going to be one of the seven. I do not know that that happened. I have not been copied on the letters and the Premier (Mr. Peterson) has not been copied on the letters, as far as I know. We do not know what exactly is happening here but, obviously, there may be players in the exercise who may not have been content to sign on just by looking at the agreement. They needed letters.

We just looked at the agreement but we did not get any letters. We have had to decide, looking at the agreement alone, whether to accept it or reject it and we have decided that it is not in the interests of the country.

Mr. Sterling: I think that seven premiers have publicly stated that they are in support of the agreement. As far as I can see, your argument could be extended to the situation where you would have a small province like Prince Edward Island being put into the position of being able to scupper an international agreement, 120,000 people holding the rest of Canada up for ransom or whatever you want to call it.

The situation is this. You have one of two choices: you either implement it or you take a tremendous gamble on getting the wrong answer from the Supreme Court of Canada, and I do not think the Supreme Court of Canada is going to have very many choices but to give you the wrong answer.

Hon. Mr. Scott: Why do you say that?

Mr. Sterling: Why do I say that?

Hon Mr. Scott: Yes. What leads you, as a lawyer, to say that?

Mr. Sterling: What leads me, as a political representative, to say that is that the average person on the street believes that the federal government has a right to make a deal with another country, and that other country, when looking in at Canada, has to be able to say somebody has the right to negotiate and deal and does not have to deal with 12 or 13 different bodies in order to cut a deal. It has to come down to some kind of situation.

Hon. Mr. Scott: Professor Fairley and I are predicting, of course, whether the Supreme Court of Canada will modify or overrule the labour conventions case. I am predicting it will not. I take it from what you have read, he is predicting it might.

I do not have the difficulty that you have with our courts. We have recent evidence that our courts do not always take the easy way out, as some people on the street think. They are quite capable of making tough decisions, tougher decisions sometimes than politicians are able to make. They do so not easily and after a good deal of thought and effort, but I am not troubled either in trying to predict what they are going to do or in living with the decision that they produce.

I simply say that overriding the labour conventions case strikes me as a very difficult exercise and even if it happens, is going to make this country a very different federal state than it now is.

Mr. Chairman: Mr. Sterling, I just want to indicate that it is two o'clock and if there is a consensus among everyone, we will keep going, because we did get started late, until at least 2:15. There are other questioners. Mr. Sterling, do you have another question concerning the constitutional aspect?

Mr. Sterling: Just this last one. If you are going to challenge in a reactive way, then it is going to be some period of time before you mount that challenge, I assume. Why do you not state a case now so that the matter can be dealt with and everybody does know where we stand?

Hon. Mr. Scott: Because we cannot state a case. What you would challenge is the implementation mode that the federal government adopts. They may have one implementation mode and they may have a variety, depending on the area of exclusive provincial jurisdiction they seek to modify. They may have a variety of different modes, depending on which province's compliance they want to assure. They may develop compliance modes that are not legislative at all, that are tax oriented or program based. The issue in that case will be whether they can use that implementation mode.

I cannot imagine what their implementation mode is going to be and, therefore, stating a case is not going to help. You ask, "Can they implement?" The first thing the court will say is, "What implementing mode are they going to utilize?" I would have to say: "I am very sorry. I do not know yet." They will say, "Well, wait." So there is no prospect of any court challenge now.

Mr. Sterling: You cannot put a stated case on the facts of the agreement and you are saying that section 91 cannot be touched.

Hon. Mr. Scott: If they introduced an implementation bill, either for the entire treaty in the Parliament of Canada or an implementation bill for a specific area in the Parliament of Canada, then we could ask the court if that was a constitutional method of implementing a treaty, bearing in mind the nature of our federal Constitution, just as we did with Bill 30 here. But you cannot ask the question in the abstract.

Mr. Sterling: You can ask any question you want.

Hon. Mr. Scott: You can ask any question, but it does not mean you are going to get a useful answer. I can ask the court when the world is going to end. There is nothing that prevents me from asking it. They are going to say, "On the facts we now have at our disposal, Mr. Scott, we cannot answer your question." When I ask them, "Are there any implementation modes that the federal government can utilize to ensure compliance on the provinces in areas of exclusive provincial jurisdiction?" they will say, "Tell us what they intend to do."

One of the most useful things that you, as a Conservative, can do for us--and I know you can do it because I have great confidence in your abilities--is to persuade the Prime Minister and his Minister of Justice to tell us how they intend to ensure compliance. In the end, there is going to be no secret about it. They are going to have to be up front and tell us how they are going to ensure compliance. Why can't we get them to tell us now? You may be able to help us with that, with your contacts, and I hope you will. If you hear anything, Mr. Sterling, do not hesitate to call collect.

Mr. Sterling: You know that the implementation part is a bit of an out that you are playing at this particular time. You know what the issues are. You know what would be the various ways of implementing this kind of situation. I have confidence in your ability to guess what they might be.

Hon. Mr. Scott: Do you have confidence in my ability to persuade the court that the labour conventions case is right, as they said it 40 years ago?

Mr. Sterling: No.

Mr. Chairman: It is perhaps the case as well, Mr. Sterling, that if a mode was put to the court right now and an answer came down, then another mode would be available to the federal government. Perhaps it is better to wait.

Mr. Morin-Strom has a question.

Mr. Morin-Strom: I hope the chairman will be as liberal with his time with some of the other members of the committee as he has been with the first member to speak. In particular, I think we will have to continue and give the Attorney General at least the full hour that he was promised and committed to originally.

At this point, I would like to start by asking about the complete statement that you made, Attorney General, to the Canadian Bar Association. This statement was made, I believe, within four days of the actual agreement being finalized and made public, or at least available to you. Have you had an opportunity to reconsider any of the opinions you have made in this statement? Have any of the opinions stated changed in any way?

Hon. Mr. Scott: Let me begin by telling you just briefly how the process developed. When we had the original memorandum of agreement--I forget when it was now--we put together a team to prepare a constitutional audit to get some sense of the impact of this on a wide variety of government programs in Ontario across a large number of ministries. We began that exercise before we had the formal treaty language.

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When the treaty was available, we then went into overdrive for about four days to measure its impact and we prepared the speech. We have now had some time to reflect on the speech and on the terms of the agreement and we have had some time to hear what other people say about it. Frankly, I do not withdraw anything I said in that speech. I am quite comfortable with the conclusions we drew then. Our constitutional audit, which is a much more detailed document, is not completed yet, but we hope to have the final i's dotted and the t's crossed shortly.

Mr. Morin-Strom: One of the areas we know is of biggest concern to

the public across Canada deals with the sovereignty or independence issues on developing policies, particularly in the areas of energy and resources, which to a large extent at least are within the realm of provincial jurisdiction.

On your questioning of the federal government's right or ability to implement the provisions in regard to pricing practices and investment in areas of energy and resources, do you have the same concerns about the implications of this agreement, or do you take the view that because the federal government does not have the jurisdiction to implement or enforce what it has committed itself to in those areas, they are not a threat to the provincial jurisdiction and the Supreme Court would make those parts of the agreement ineffective?

Hon. Mr. Scott: For the reasons I gave in the speech, I believe some of the promises made by the federal government to the United States about resources and energy are going to impact on provincial constitutional powers. In the old world, I would not have been too troubled about that because I know the federal government would traditionally have come around under co-operative federalism and said, "Would you like to pass this act so we can meet the obligations of the treaty?" All we know now is that they are going to ensure the compliance of the requisite number of provinces that have resources that are dealt with under the agreement, or what have you, to satisfy the American interest.

As I say, I do not know how they are going to do that. It may be that they will do it by passing a federal act that will impact on areas of exclusive jurisdiction. It may be they will do it by some taxation technique that will require a province to go along. All I say is that whichever way they do it, it is a novelty and it amounts--I have nothing to say as to whether it is going to be good or bad because I am not an economist--to a constitutional change in the way we have been doing things in this federal country.

Going into the exercise, when Canadians are looking at the ledger statement, the pluses and the cons, the new jobs or the jobs lost, or making the accounting as to whether it is a good deal or a bad deal, we had better also start to consider that one of the things that has to go in that ledger statement is a fairly significant change in our federal system. That is the point I am making, pure and simple. Put that in the hopper as well as the other things that are talked about more regularly.

Mr. Morin-Strom: You are saying that to this point you do not know how the federal government can implement those provisions of the agreement.

Hon. Mr. Scott: No. The interesting thing is that I think even Professor Fairley would agree with me here. He might say--I have not read his remarks--"The federal government can do this." But I think he would also admit it is the first time it has ever happened. I think he would also say, "When they prove they can do it, if they do, to the satisfaction of the Supreme Court of Canada, the constitutional axis on which Canada is built is going to be very different." All I am saying is that when Canadians talk about the economic benefits or disbenefits of the agreement, they had better understand that other things are on the table as well. One of them is our constitutional tradition as between the provinces and the federal government. That is an important thing in Canada because of the nature of our regions, so disparate, often with fundamentally different interests.

Mr. Morin-Strom: Finally, I would like to get into one more little specific point you made in your remarks. It has to do with the "Extent of

Obligations" clause which I think we have been talking about primarily here, but in particular how you have related it to the GATT agreement. You are saying this clause also means the federal government must ensure, and I underline ensure, provincial compliance. This goes well beyond its duty under GATT with respect to provincial compliance.

I wonder if you could let us know what the fundamental differences are between this treaty and GATT and maybe use as an example the wine issue which we are facing with GATT right now, and whether this implies that the province is in a stronger position in upholding its case under the GATT agreement than is being contemplated under the treaty.

Hon. Mr. Scott: I do not have the language of GATT in front of me, so I paraphrase, and I hope carefully. Under GATT, the federal government as signatory to the treaty, because we are not, is obliged to take best efforts to obtain provincial compliance. Under this, the language is strikingly different. They are obliged to ensure compliance. Any person can see the difference in terms of the promise. Under free trade, they guarantee performance of the provinces. In short, compliance means guarantee. Under GATT, they say they will use their best efforts.

Under GATT, I believe it is assumed that their best efforts do not require them to trench on areas of provincial jurisdiction. I am not an expert on the wine situation, but if the federal government wants the province to make changes in its wine support or pricing policy, there are a number of things the federal government can do to encourage us to take that position. It is conceivable they could put us in a position where it is impossible to do anything but what they want, in the interests of the province as a whole. But trying to compel us by those means, whether they be in terms of federal support or other programs, and guaranteeing that we will do what they want under a treaty, is a very different thing in constitutional terms.

Mr. Morin-Strom: When it comes to the wine and beer industry, one of the contentions has been that they are under just as much of a seige and just as much of a threat by the GATT ruling as they would be by what might have been or is in the free trade agreement. You are saying that because it is only the federal government's best efforts that are required and because they do not have the jurisdiction, in effect, the province can continue to support that industry under GATT.

Hon. Mr. Scott: Under GATT, in an effort to persuade us, the federal government could say to GATT at the end of the day: "We have been unable to move them but we have made our best efforts. We are not in breach of the treaty." That would be the case. Under the free trade agreement they will not be able to say that. The United States will be able to make a complaint. The federal government may be satisfied, but the United States will be able to make a complaint that Canada is in breach of the treaty because it has not ensured compliance of the province of Prince Edward Island and so on. Then the whole treaty is up for grabs.

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I think one of the important things--Mr. Sterling made the point that you can opt out of the treaty but I think, and I tried to make this point in the speech, that it is a given that this in effect is an illusory advantage. The changes this agreement contemplates across the country in terms of our international trade and in terms of our domestic economy are so enormous that imagining that once we are into it this is going to be unwound on a "six

months' notice" provision is simply incredible. We will be so far into it that it will be impossible to get out.

Mr. Mackenzie: Essentially, I have just two questions. The third one I had was whether you have changed your opinion since your speech and I take it from your comments that you have not.

Hon. Mr. Scott: No.

Mr. Mackenzie: One of the perceptions certainly that was held by an awful lot of people was that for a while, and it is probably reinforced by your speech, the veto right, if you like, over those areas that are under provincial jurisdiction was one of the defences and it seems to have weakened, which bothers me.

We have, as you say yourself, an agreement that has a significant impact on this province and on the country. We have an agreement that does not meet clearly with the guidelines set down by the Premier (Mr. Peterson) in his various speeches on this topic. We have an agreement that concerns an awful lot of people in terms of the energy policy. We have a seven-year period in which we may find some of those things that make us uniquely Canadian, some of our social policies and others, subject to debate and who knows what you might have to trade off in terms of what are subsidies and what are not over a seven-year period.

Given all that and given that we do not have the case before us in terms of enabling legislation, which you may or may not have expected, but a position of the federal government that is going to ensure compliance, why in blazes are we not saying much more clearly than we seem to be saying--whether we can launch a court case in advance or not may not be the argument--in Ontario that we do not intend to comply and make that point known? It seems to me it is a political deal, not just a lawyers' deal, and that would carry more weight than some of the other arguments.

Hon. Mr. Scott: I think the Premier has said that with absolute clarity. The sense I get from question period is that you want him to do something apart from saying that. The question is, what would you have him do? You can have him be critical of the federal government. He has done that. You can have him denounce the agreement. He has done that. You could ask him to say that he is not going to implement it in the province if he gets the chance. He has done that. You might ask him to march in the streets. I do not think he has actually done that but you might ask him. Then you could say, "Well, go to court." The problem is, we cannot do that. What is it that you would have us do that has not been done to indicate that we, as a province, are opposed to this agreement and do not support its terms in the interests of the country?

Mr. Mackenzie: I have not seen a letter to the federal government that clearly says we will not be ensuring compliance. I have not seen this message passed on to the Americans. I have not seen it in anywhere near the positive terms you put it and that is my concern as a Canadian who is concerned with this agreement.

Hon. Mr. Scott: I think there is a misunderstanding. You have said you have not seen a letter from the Premier in which he said--

Mr. Mackenzie: He made a recent comment that he will not tear the agreement up, so it is obvious he has backed off to that extent.

Hon. Mr. Scott: No. What you said, just so we will be clear, is that you have not seen a letter from the Premier to the Prime Minister in which the Premier said he would not ensure compliance. The whole point I have been making is that we are not being asked to comply. The Prime Minister of Canada has made a commitment that he, not us, will ensure compliance. So far he has not asked us to do anything and the indication is he may ask us to do nothing and obtain compliance in other ways. The question is what those ways are, because when they become apparent, we will then have some foundation to look at them and if appropriate, attack them, but that has not happened yet.

Mr. Mackenzie: At which point it may very well be too late. I cannot see anything wrong with the province making a very strong statement that this has not met the conditions we ourselves set. It will have a significant impact and maybe we should make it clear that they are going to have a fight. I do not see that taking place at all with this government.

Hon. Mr. Scott: I am not sure more exercises in rhetoric are required. I think the Premier has made it perfectly plain that the conditions he was looking for in the agreement have not been met, that he is opposed to it, that it is not in the interests of the country and that in so far as it will require the intervention of the Ontario government, he does not support it.

Mr. Mackenzie: I am not sure it is an exercise in rhetoric. It seems to me that maybe--

Hon. Mr. Scott: Maybe he has not made it loud enough for you.

Mr. Mackenzie: Mr. Sterling may very well have a point, that this approach of the federal government gives us a very good copout in Ontario too because we do not know just how it is going to ask us to ensure compliance with the agreement.

Hon. Mr. Scott: I do not know what you are looking for but we are not looking for a copout.

Mr. Mackenzie: The second question is, in the House the Premier referred to a constitutional audit or inventory or what have you of those areas that impinge on provincial jurisdiction. I wonder when that will be available to others or if it will be made available to this committee or to others who may want to take a look at it and how extensive that will be.

Hon. Mr. Scott: I think it will be fairly extensive, Mr. Mackenzie. We have spent a lot of time working on it and have involved a lot of people in other ministries measuring the impacts of the agreement on their programs and the future development of their programs. I cannot tell you when it will be available, but it will certainly be made publicly available and of course to members of the House, I would hope as soon as it is finished.

Mr. Chairman: Thank you very much. Your opinion of course is extremely important in the committee's determination as to what the government can do in the future and we appreciate it.

We have some representatives now from the Automotive Parts Manufacturers' Association of Canada. We appreciate your waiting. Larry

Buganto is chairman of the board and president of T. I. Industries Ltd. and Victor Lonmo is the president of the association. Welcome to the committee.

AUTOMOTIVE PARTS MANUFACTURERS' ASSOCIATION OF CANADA

Mr. Lonmo: My name is Victor Lonmo. I am the president of the APMA. I want first to apologize for Mr. Buganto. Mr. Buganto just got back from Europe and unfortunately could not be here today. I have with me Harvey Filger who is on the staff of the APMA and is responsible for business affairs.

Mr. Chairman: My apologies for the introduction. Do you have any written brief for us or did you wish to--

Mr. Lonmo: We do have a brief and I will leave a copy with you and all the members of your committee when I leave.

First, I would like to thank you and the members of this committee for having us visit with you today.

As you might recall, during our appearance last year, we emphasized four broad issues of concern to our membership. They were (1) overcapacity; (2) trade policy; (3) taxation; and (4) social policy. Today, all of these concerns still remain and none, with the exception to some extent of taxation, has been addressed by governments. This highlights the need in our opinion for an automotive strategy for Canada. At present, the political commitment for such is lacking in both Ottawa and Toronto.

The need for a comprehensive strategy is made compelling with the free trade agreement now completed between the governments of Canada and the United States. Once it is fully implemented, the auto pact safeguards will be nugatory. Furthermore, we are concerned that the 50 per cent North American value-added requirement for duty free trade between the two countries is too low. We advocated a 60 per cent level which was supported in Lansing, Michigan, and Washington, DC. Regrettably, the Canadian auto parts producers have received greater support there than in either Ottawa or Toronto on this issue. Should this lack of support continue, it may well adversely affect the climate for doing business here, and it may well affect and be an issue in our members' undertakings and investment plans in this country.

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The 1987 calendar year represented yet another year of growth; in fact, the fifth consecutive year of economic growth in the present business cycle. The automotive industry has been a major contributor to Canada's and Ontario's growth during this period. However, the latter part of 1987 saw a softening in North American automotive markets. Virtually all automotive analysts see the market declining over the next two years. Concomitantly, there will be almost two million units of new additional capacity brought on stream in North America.

Let me emphasize that this overcapacity problem exists also in Europe and the Far East. Presently, there is only one market in the world that is open. That market has an indigenous automotive industry, yet it is the only one that does not have a strategy, that is, North America. Consequently, the competitive pressures on Ontario-based automotive parts producers will intensify in the next few years.

Public officials are constantly exhorting our members to be

internationally competitive. We agree. However, for us to be able to compete in Ontario and be internationally competitive means that the cost of government in this province and in this country must also be internationally competitive. This requires that its budgetary, fiscal, social and trade policies be competitive with those with whom we are told we must compete.

As mentioned before, our economy is completing its fifth year of growth. Yet Ontario has not registered a budgetary surplus during this period. Given that economists and policymakers have yet to develop a mechanism to eliminate the business cycle, surely it means that the budget deficits will mean less flexibility for the province in years to come. Furthermore, this government has shown great and justifiable concern with inflation protection, particularly in the field of pensions. However, it must be noted that a major cause of inflation is imprudent budgetary policy.

Rather than penalize private entities willing to employ and invest in Ontario for government extravagance, the government should attack the problem at its source. Consequently, we believe the next provincial budget should show a surplus as well as a future plan for reducing the province's cumulative debt. Additionally, the Treasury might wish to separate the capital expenditures from current disbursements. This could ensure that sufficient funds are set aside to maintain Ontario's modern infrastructure.

The free trade agreement with the United States will require that Ontario industries must compete with those located in the midwest and southern United States. Furthermore, the Ontario government's embrace of the GATT multilateral trade negotiation process will require us to compete with many low-cost Third World producers. For us to be successful will require that the province have a competitive cost of government. Therefore, we believe that in 1988 the budget statement should contain an indication from the Treasurer (Mr. R. F. Nixon) and that he should acknowledge this reality and assure us that the direct and indirect taxes in this province will not exceed those in competitive jurisdictions.

Furthermore, given the present government's enthusiasm for the GATT as well as the GATT subsidy code provision allowing for governments to rebate indirect taxes on exports, we advocate a lowering of direct taxes with their replacement by higher indirect taxes. Such will enable Ontario industries to compete in the international marketplace on a level playing field with our competitors. This is the basis of tax, by the way, in the European common market and Japan.

It is difficult, as you can well imagine, for a business group to comment on social programs. We tend to be portrayed as being callous and/or self-serving while those who advocate that others pay their bills are presented as having noble intentions. Yet we also benefit from social programs. Services such as day care and indexed pensions as well as legislation calling for pay equity may be laudable, but they are also a cost of doing business. Furthermore, it must be recognized that Canada's extensive policy of regional development and transfer payments is in large measure funded by Ontario. This is a cost not shared by American and Japanese competitors.

The key to social programs is affordability. That is why we believe that a concrete plan for dealing with Ontario's cumulative deficit as well as a guarantee of competitive tax rates is critical. They will require prioritization of social needs.

The present legislative session will probably deal with the question of

indexed private sector pensions. In our view, indexed pensions should be the result of a fixed term, give-and-take collective bargaining agreement and not the product of government legislation. If they are based upon government legislation, then we foresee at least two harmful effects.

First, it would significantly increase business costs at a time when we are in the most globally competitive environment in our history. Second, given that Canadian political leaders have not shown a desire to restrain spending--it is interesting to note that Canada's government debt is more than double, on a per capita basis, that of the United States, and we have had prime ministers in this country criticize the American debt as being out of control--indexing pensions could result in inflationary spending being viewed as politically costless. This would raise inflationary levels and, simultaneously, business costs.

The last issue of our statement is that of trade policy. The major event of the past year, and possibly for years to come, is the Canada-US free trade agreement. As mentioned earlier, we have not been successful in having the level contained in the rules of origin set at 60 per cent, in spite of support we have received in both Washington and Lansing. So far, the Ontario government has chosen not to lend its political support to the principles advocated by the Automotive Parts Manufacturers' Association of Canada.

Given our contribution to the provincial economy, we are disappointed, of course, that Ontario has not chosen to give us the political support our counterparts in Michigan have received from their state government. While we understand that the province's doctrinaire opposition may have initially been productive, as the free trade agreement now is a reality, such a rigid position has left the province impotent to obtain changes and/or assurances important to those in the province who will have to compete.

Seven provincial premiers have endorsed the free trade agreement. However, each has added a caveat that regional, equalization and transfer payments, funded mostly by Ontario, must be maintained and, in some cases, increased to offset adjustment costs. We view such an attitude as inconsistent and unfair to Ontario business.

Therefore, we believe the Treasurer in his budget message should advocate, as we move to a continental marketplace, that these premiers endorse the principle that over the implementation period of the agreement, equalization and transfer payments as funded by Ontario to these provinces should be phased out.

We are also concerned with the provincial government's enthusiastic embrace of the GATT and the most favoured nations principle. While we have opened our market to virtually all countries, the European Community has obtained an article XXIV exemption allowing it to discriminate between EC member states and other GATT signatories. Additionally, Japan and the newly industrialized countries have not reciprocated in market access. Consequently, we would support any initiatives by the Ontario government to obtain reciprocal access to non-US trading partners.

If we could summarize our position, it is that the cost of government in Ontario be competitive with those jurisdictions we are required to compete with. This will require strategic thinking, discipline and prioritization.

Over the next 10 years, tough business decisions will have to be made as we move forward in a free trade environment in North American and increasing

global competition. Our members look to your committee's report and its impact on the Treasurer's budget as a determinant of a political commitment that Ontario remain a competitive place to employ, invest and produce. The APMA of Canada is prepared to work with provincial authorities to achieve that goal.

Mr. Chairman: The committee was prepared today to hear your views specifically on the trade agreement. We are, in fact, involved in prebudget discussions and will be having hearings on that issue later this month. I take it from your submission that you were prepared to speak to us on that issue primarily and the trade issue in so far as it affects the budget.

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Mr. Lonmo: I am sorry. I think some people have heard so many comments from us on our position on the free trade agreement that they may think we were vaccinated with a phonograph needle. The truth of the matter is that we are quite prepared to discuss in any detail you or your members may wish to cover. I could leave with the secretary a rather lengthy speech I gave in Quebec a week ago, to Daniel Johnson and a number of Quebec businessmen, which I think addresses some of the issues as we see them affecting the automotive industry.

The point that has to be made, whether you are looking at the Canada-United States free trade agreement or whether you are looking at the preparation of the Ontario budget, is that these are all important issues but they must be seen in a context of doing business in Canada and doing business in Ontario. This means that someone somewhere is going to have to articulate a policy and that policy is going to have to be an industrial policy or industrial trade policy. There is no easy way out of this. This country has a defence policy and it has an agricultural policy and yet it is loath to consider an industrial policy or a really cohesive trade policy.

Mr. Chairman: I do not think the committee members will have any problems in dealing with both topics at once, frankly, because they do intertwine. We will consider your submission in preparing both reports, unless I hear any problems with that from the committee.

Mr. Sterling: I would like you to clarify for me the 50-60 per cent minimum parts content because I am not from an area where we have a lot of auto parts. I represent an area just outside of Ottawa, in the city of Kanata. We do not have, I believe, any plants that are directly involved.

Mr. Lonmo: It is not the heart of the auto industry. That is quite true.

Mr. Sterling: Would you just explain to me the different formulas and the inclusion of what they do and what they do not do? There is 50 per cent Canadian, there is 50 per cent North American and there is 50 per cent including manufacturing costs and production costs and selling costs. I do not know how briefly you could--

Mr. Lonmo: We may be here longer than you were here with the Attorney General. Let me cover two points very quickly. The first is that the Canada-United States free trade agreement for the first time defines the direct cost of processing as a measurement to qualify under the rules of origin, to have goods that are produced in Canada and/or the US move across the border to the other partner country duty-free. It is a comprehensive, easy-to-understand definition, and that is a step in the right direction.

There is no question about it. There has never been a similar definition before.

You have mentioned other numbers, such as 50 and 60, and without going into a lot of detail, the current definition is that of North American value added. Under the auto pact, as it now is constituted, you have two numbers. The first is, for goods from Canada to qualify for duty-free entry into the United States under the auto pact requires 50 per cent North American content--not value added--in order to get duty-free entry into the US. That North American content may be Canadian and/or American but it must be 50 per cent or more to qualify for duty-free entry.

The other number you use is 60 per cent. The 60 per cent under the automotive pact deals with Canadian value added, which is a totally separate definition and is a measurement of activity undertaken in Canada by a company that wishes to qualify for the right to import motor vehicles of a given class and/or the parts for that class of vehicles duty-free from the United States and/or third countries. It is one of the so-called safeguards.

Basically, there are three definitions and three measurements. First, there is 50 per cent--as it now is in the free trade agreement--North American value added on a direct cost-of-processing basis, which we are advocating be moved to 60 per cent. I will be glad to tell you why it should be 60, and it is not just to give us more business. Second, there is the 50 per cent North American content required in order to qualify for duty-free entry into the United States from Canada. Third, there is the 60 per cent Canadian value added required for a manufacturer to meet in order to qualify for the duty-free entry into Canada of vehicles and of parts of a class of vehicles. So there are basically three definitions and three measurements.

Mr. Sterling: I guess the problem is that there are three definitions and three measurements. When you go from the existing definitions in the auto pact agreement to what is proposed in the free trade agreement, what is the disadvantage to you?

Mr. Lonmo: There are many disadvantages. First of all, under the Canada-United States free trade agreement there is no safeguard for Canada. You could conceivably meet 100 per cent of the 50 per cent North American value added required for duty-free entry by having it all produced in the US. At the present time you cannot do that. At the present time, the Big Three--and I understand they will be here later in the week to talk to you--are required to do two things.

First, they must maintain, in a given class of vehicles, a ratio of production to sales on a value basis of one to one and, in the case of automobiles, must have 60 per cent Canadian value added as a percentage of cost of sales. In other words, you have to have 60 per cent of the selling price in CVA generated in Canada in the case of automobiles and 50 per cent for trucks. It is very different. There are no safeguards for Canada under the Canada-US free trade agreement in the automotive area.

Second, we believe the number is too low. Briefly, the reason the number is too low is very simple. Unless you move to 60 per cent--and we are not suggesting it has to be done on day one--you can have companies qualifying for the movement of vehicles in North America without producing engines, transmissions, transaxles or electronics in North America.

In other words, the companies would qualify for the duty-free movement

of vehicles in Canada and the US without making any contribution in the intellectual component part of the vehicle. You do not have to be a PhD from Harvard to assemble a motor vehicle. If you are going to redesign a transmission, you had better understand a great deal about metallurgy and manufacturing techniques, a totally different business. It is part of that business, not all of that business. It is part of that intellectual part of the motor vehicle that we are trying to ensure stays in Canada.

If you read the papers earlier this week, Mr. Murphy had his picture on the front of the Toronto Star. The article was basically supporting the fact that in the United States they are going to push for 60 per cent. I have been to Washington recently and I can suggest to you quite sincerely that there is considerable support there for moving to 60 per cent.

If you read the agreement--I assume you have--article 2104 makes it quite clear how an amendment could be made. The arguments that have come out of the Trade Negotiations Office saying the deal is signed, sealed and delivered just do not hold up. So we will be trying to move to the 60 per cent and we will not give up on that, by the way.

Mr. Sterling: What would be the disadvantage of Canada agreeing to that?

Mr. Lonmo: Of going to 60 per cent?

Mr. Sterling: Yes, why would they want to stick at 50 per cent? Is it outside pressure?

Mr. Morin-Strom: The Japanese.

Mr. Lonmo: I think that is a fair question and I would be tempted not to lay this position on the Japanese. I do not think that is fair. Our understanding of the position is that one or possibly two companies have--and it is their right to do this--gone to Ottawa and tried to influence, and have obviously been successful in influencing, the TNO to stay with the 50 per cent number.

But I should tell you that, on November 20, the Canadian team did agree to the 60 per cent number. The reason we did not get 60 per cent was for reasons totally unrelated to 50 and 60. It was related primarily to the phasing out of duty drawback--not duty remission, but phasing out of duty drawback--and its time sequence, because these issues are all tied together.

I do not think it is fair to lay blame on the new entrants. Someone mentioned the Japanese companies. I do not think that is a fair criticism. These are companies that are starting their production in North America. They are significant motor vehicle manufacturers in the world. They are going to be significant motor vehicle manufacturers here in Canada. We want them to play on a level playing field like everybody else and we, of course, want to sell them parts.

We are not trying to distinguish between the source of the capital. Sure, 50 is easier than 60, and 35, which was the original number talked about, was a lot easier than 50. Yes, I think that it is a point that it is very important to us, but I would not criticize the Japanese companies for having made that point.

Mr. Sterling: You could not be challenged under article 24 of the General Agreement on Tariffs and Trade, if you went to 60 as opposed to 50?

Mr. Lonmo: I do not see how it could be. Everyone is worried about the challenges in the GATT. These countries are coming down with GATT panel decisions, consistently over the years, and most governments do not implement them anyway. If you recall, the American government was told some years ago that the domestic international sales corporation program was not compatible with GATT and so forth, so they turned around and changed the name of it and it is still there.

So I do not think we have to be religious about the GATT. We do not want to create a situation where we are doing things in our trade relations which would evoke a response from our trading partners where they would want compensation. I am not suggesting that for a moment.

But, in the creation of a free trade area between Canada and the United States, I think it is fully compatible with the GATT article 24. I might just mention that before assuming the position of being president of the Automotive Parts Manufacturers' Association of Canada, I was the director of industrial trade policy in the federal government for nearly six years. So I understand how that works and quite frankly, article 24 is the way it will work.

Mr. Chairman: It is a what?

Mr. Lonmo: That is the way it will work. Article 24, this agreement, I am quite sure--I am not a lawyer, I do not want to misrepresent that--but I do not think there is any question that this agreement is compatible with article 24 of the GATT.

Mr. Chairman: Just to clarify an earlier answer you gave, you indicated, I think, first your concern with the agreement was the location issue, that is North America as opposed to Canada. Second, you said 60-40.

Mr. Lonmo: No, 60-50.

Mr. Chairman: 60-50.

Mr. Lonmo: The other--

Mr. Chairman: You talked more about 60-50, but you did say firstly and secondly. Is that your position?

Mr. Lonmo: I was trying to convey, in response to a question, what the important issues are. There are many others. There is the question of duty drawback. Unfortunately most people do not understand its implications.

If you understand the implications of duty drawback, I think you would agree that it is going to be very difficult to attract investment from offshore to Canada.

Mr. Ferraro: Why do you not tell us?

Mr. Lonmo: There is an offer you cannot refuse. Let us just take a situation at the present time. One can make a general comment on the Canadian tariff versus the American tariff. These tariffs are asymmetrical. Canadian tariff rates on identical goods tend to be considerably higher than American rates.

Take automobiles, as an example. The current rate coming into Canada from Japan is 9.2 per cent. From Japan into the United States it is 2.3 per cent. The difference is 6.9 per cent. Remember, under the free trade agreement, you can import 50 per cent of your direct cost of processing from offshore, so the 6.9 per cent, by definition, becomes 3.45 per cent.

So by putting an identical plant in Detroit versus Windsor--without any other consideration, but just on the phase-out of duties--and duty drawback, by the way, is where duties are paid on the goods coming into Canada. Historically, when you export the goods to the United States or anywhere else in the world, you get the duty back and that is a very common procedure. In a free trade zone or area as we will have, you will not be able to do that. Therefore, you have to pay the duty when the goods come into the country and you cannot get them back unless you ship them to a third country.

On day 1, if you did nothing else, by putting a plant in Detroit versus putting it in Windsor, you are 3.45 percentage points ahead in the example I gave you, just on duties alone, and you qualify, by the way, for duty-free entry at the same time. That is without dealing with corporate taxes, municipal bonds and so forth. That is just one issue.

Mr. Chairman: Is that permanent? That does not get phased out then?

Mr. Lonmo: We have duty drawback privileges now.

Mr. Chairman: Yes.

Mr. Lonmo: Under the Canada-US free trade agreement those privileges are phased out and what the Americans are doing at the same time is phasing out their use of what they call their foreign trade zones. These are free trade zones. Basically what they did was to get their duties back when they exported the goods to Canada. But again, the difference in the duty is it is so much lower that it does not have a significant impact on the selling price of the product.

Mr. Ferraro: Could I ask a supplementary on that?

Mr. Chairman: I have a long list, but perhaps we can get back to you, Mr. Ferraro. Mr. Morin-Strom, Mr. Haggerty, Mr. Pelissero, Mr. Dietsch and Mr. Ferraro. Mr. Morin-Strom?

Mr. Morin-Strom: I will pass.

Mr. Haggerty: I was interested in your comments about the 50 per cent ratio on parts content. I believe you indicated that you want to get back to the 60-40 ratio. Is there not another area where there have been, you might say, some concessions given to the Americans, particularly in the automobile and truck sector--that is, the Canadians have agreed to drop their export rebate scheme? What impact will this have upon your industry, the 60-40 ratio going down that 10 per cent to 50 per cent? Are there any jobs that will be lost from this?

Mr. Lonmo: I must admit, I am not sure what you mean by 60-40. Are we talking about the Canadian value added, the cost of sales and the auto pact?

Mr. Haggerty: The parts content was 60 per cent.

Mr. Lonmo: That is correct.

Mr. Haggerty: The 40 per cent would be offshore coming in.

Mr. Lonmo: I see what you mean.

Mr. Haggerty: Now it has dropped down to 50 per cent.

Mr. Lonmo: No, that is not true.

Mr. Haggerty: That is the impression or the information--it is 50-50 now, the content.

Mr. Lonmo: No. I made the point quite clear that there are a number of very different definitions. Under the Canada-US free trade agreement, the 50 per cent number which is now there, which we want to see raised to 60 per cent, deals with North American value added, calculated on a direct cost of production basis. That is what is there now.

Under the auto pact, there are two numbers, one is 50 per cent and one is 60 per cent. The 50 number is a North American content basis where you must have 50 per cent or more North American content in order to qualify for the duty-free entry of the product into the United States.

The next number is the 60 per cent number. That is under the Canadian part of the auto pact and that is Canadian value added. That is not Canadian content, it is not North American value added, it is Canadian value added and has a very different definition.

What your question deals with is in fact the question of duty remission. I have spoken earlier about duty drawback. Your question deals with duty remission. In other words, those companies that have agreed to establish facilities in Canada and/or purchase parts in Canada and export them to the United States have been granted, by order in council, duty remission.

The duty remission concept is not new. For those of you who may not be familiar with it, the auto pact in Canada is a duty remission order, so duty remission is not a natural sin. Duty remission becomes a problem when you create a duty remission order based on certain levels of production and/or standards of export to the United States. It is the American law that looks at that as an export subsidy.

The federal government, in March 1985, changed its duty remission orders, which are given to I believe nine companies--10 if you count Volkswagen. These companies are primarily the well known Japanese companies as well as the European companies, including BMW, Mercedes-Benz and Jaguar. There is nothing secret about this. This information is all available in the public record and can be obtained.

To answer your question briefly, the amount of business that is being done on which duty remission is being paid is not in itself significant enough to raise the wrath of the American trade policy community. It is just not worth it. In one fiscal year, the amount of remissions granted was \$501,000 Canadian. It went to nine companies and some of the very large, well-known companies got zero dollars; some were under \$30,000. Some of the bigger ones getting remission are companies like BMW and there are no parts going to the United States.

So to answer your question, if any business is lost, sure, it will affect members of the Automotive Parts Manufacturers' Association of Canada.

Is it important? No. It is not worth trying to defend an issue which by its own definition was the reason we got the auto pact.

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I know your time is short, but the auto pact was the result of what was called the Drury plan mark 2. It was a duty-remission program named after Bud Drury. A small radiator company in Modena, Wisconsin decided to appeal it to the courts and they would have won the case. Therefore, CVA and parts export to the United States was immediately taken out. Six months later you had the auto pact.

Mr. Pelissero: You mentioned in your opening remarks that in order for your members to be internationally competitive, the cost of government has to be internationally competitive as well and you suggested some social policies as well as some other policies.

Under this agreement, the idea was to level the playing field. If the playing field is not levelled from a social policy or an environmental perspective, would some of the members in your association be more apt to close up shop, move to the United States and carry on business down there, say from a dollars-and-cents point of view?

Mr. Lonmo: Let us be quite frank. We are talking about business. Let us just take one issue. An announcement was made last December by a Canadian company. I spoke with them last week and asked them what were some of the reasons that drove them to go to the United States rather than building another plant in southwestern Ontario. There are many reasons. Long-term business decisions like where you put a major facility are not driven by one issue. They made a couple of points.

The first one was, they take a snapshot of where you are and what you are dealing with. For example, the corporate tax rate in the United States, federal and state, was 39.5 per cent. In Canada, it was 46 per cent. So all of a sudden, you have 5.5 percentage points. The truth of the matter is that then you start looking at other things like your cost of capital to build your plant, buy your land and so forth.

Without going into a lot of detail--and you have access to this information; it is quite public--you can get municipal debentures that are given out in the United States. They are guaranteed by the US federal government, they are through local governments, and they provide money at far below market cost. If you go south of the Mason-Dixon line, you have right-to-work legislation, which basically means that the strength of the unions is much less. So it happens that labour costs are less. So you start going through a myriad of decisions that you as a businessman have to make.

My point to you is--and we do travel; I have been to South Korea last year, I have been to Japan--when you see the kind of technology that is moving around the world, do not for a moment think like so many Canadians do that South Korea is a developing country and it is a long way away. In South Korea, General Motors has an investment in a company called Daewoo. Daewoo is one of the most sophisticated motor vehicle producers in the world. Their facilities are absolutely first class. Their car is an Opal out of Germany, designed in Germany, engineered in Germany, and this car is going to be selling in big numbers in North America. Make no mistake about it, it is a first-class product, but it comes out of South Korea.

Ford is bringing cars out of places like Taiwan. Chrysler is announcing that they are going to be importing 8,000 to 9,000 cars this year from where everyone expects the auto industry to be, in Thailand.

My point to you is that the competition to get the business and to keep the business is becoming far more competitive than it has ever been before. If we are going to maintain this industry, we are going to have to do something about keeping the cost of doing business down. I am not suggesting for a moment and I have no answers for you as to what the level should be. I am just suggesting you must make damn sure you are competitive or you are not going to have anybody to tax.

Mr. Pelissero: Let me try to understand it from a different perspective. My understanding up until your presentation today was that one carrot, if you would, for Japanese automakers to locate in Canada, and more particularly to locate in Ontario, has been the auto pact in terms of access to the United States. Do you feel that incentive is still there under this agreement in terms of the 50 per cent North American content?

Mr. Lonmo: I think the question is not that difficult to answer. Again, it is a relatively complex question about what are the considerations that a Japanese company would make.

Mr. Pelissero: For a long-term investment.

Mr. Lonmo: For a very long-term investment.

Let me try to answer the question. I have been to Japan many times. My last trip over there was the 12th trip and they are all automotive-related, so I have had a little bit of exposure.

The point I would like to make is that Canada-United States automotive trade products agreement, or the auto pact, was signed in January 1965. The companies to which you made reference have chosen not to make any commitment, other than the CAMI Automotive-General Motors' joint venture in Ingersoll, to have their business in accordance with that auto pact.

What is interesting is that when the free trade agreement was signed on January 2, CAMI was included, but then CAMI was the only company of the new companies coming onstream that committed itself to auto pact status. I do not think the other companies have a very legitimate claim to say, "We cannot join the auto pact." They cannot now join the auto pact. They are precluded by the wording of the free trade agreement. There are going to be no more companies under the umbrella of the auto pact. That is gone, but then they have had 23 years to get under, so how long do you have to wait and watch them drink water? The point is, they chose not to do it. I do not think they can really complain. I do not think that is a very legitimate complaint.

Mr. Pelissero: One final question, and it is a question we have asked most of the other delegations appearing before us. Would you comment on the impact of the value of the Canadian versus the American dollar? Is it a consideration in any of your members' decision-making process in terms of where to locate and how much to produce?

Mr. Lonmo: That is the easiest question to answer and the answer is absolutely yes. If you want to see things falling apart wait until it gets to 80 cents and they start literally crumbling at about 82-83 cents.

Mr. Mackenzie: In addition to that, could you tell us what your prediction is. I do not know if it is part of your field, but with this deal do you see the Canadian dollar staying where it is, going up or dropping?

Mr. Lonmo: Of course, that is a very difficult question to answer, and I am not sure that we have the expertise. Let me tell you that we have tried to ask other people who we think do have expertise. The general consensus is, if the free trade agreement is implemented the way it is now written, it will significantly enhance the value of the Canadian dollar vis-à-vis the US dollar. There is no question about that. The question is by how much. When you start asking by how much, you get a broad spectrum of opinion. The opinion at the top end is that it could be as high as parity with the US dollar, less added cost of doing business and interest rates and so forth in Canada for a discount. That may or may not be a very big spread.

Mr. Mackenzie: Can you give us any reason, then, why we would have had a presentation from the finance people of the ministry that gave us a minor gain of, I think, 120,000 jobs and two per cent, or something, based on a drop of three and a half cents in the Canadian dollar over the next five years?

Mr. Lonmo: Well, I do not know, you should not feel too badly about that. A year ago, when we were trying to put our position together for Ottawa, we asked the Trade Negotiations Office what they were doing vis-à-vis the Canada-US dollar, and their opinion was the Canadian dollar was grossly overvalued and would decline significantly. Of course, they signed the agreement on January 2 and it has gone nowhere but up. You just have to be careful who you ask the question.

Mr. Pelissero: Ask them for a weather prediction.

Mr. Chairman: That is why we have groundhogs.

Mr. Dietsch: Many of the questions that I was going to ask you have been addressed already, but there is one in particular that I am curious about. In your early stages, when the free trade agreement was in amongst the negotiating process, was your organization of the view that free trade would be good for the country? Have you now changed that view? Is that what I am hearing?

Mr. Lonmo: Yes and no. There is no other industry in this country that lives on two issues. One is assured access to the United States market and, two, on a duty-free basis. Make no mistake about it, without both of those issues, you do not have an auto industry in this country and it is really very simple. Our initial position was that the United States--and all you have to do is go down and talk to the folks down there, there is no magic in what the problems are, the problems were quite real, they were going to start trade policy action, a 301 action or a 201 action against Canada on automotive parts exports to the United States because of the duty remission programs which they believe are a direct export subsidy. They likely would have won and it would have been a disaster for the Canadian auto parts industry, because whether you are guilty is not the point. Parts going across the border would be suspect by definition. That would have been a major difficulty for the industry to operate under.

position we came out with on July 20. We literally had Mr. Filger fly to Ottawa with it and present it to Mr. Reisman. There was no question he got it when he wanted it and it was very clear. If you like, I would be more than pleased to see that the chairman gets a copy of that. It is a very clear statement. It is about 10 pages long and it deals with issues such as assured access to the US market on a duty-free basis. We would be quite pleased to see you get a copy of it.

Mr. Chairman: We would appreciate that very much.

Mr. Lonmo: All right, you will get it.

Mr. Dietsch: Just to pursue my question a little further then, I guess in its initial stages you felt it was good, but now, after having seen the arrangement that is on the table, it is--

Mr. Lonmo: I am sorry, that is not the point. What is important is the principle of free trade. The principle of free trade is absolutely fundamental and the principles of the auto pact are absolutely fundamental. What we have here is a situation where, quite frankly, we are in a very difficult position of finding that we cannot support the free trade agreement the way it is now written. We made this quite clear, and it is a very difficult position for the auto parts industry to be in. At 60 per cent--I do not want to mislead you--we support the agreement.

The other major problem with the agreement that we see right now is that of dispute settlement. It is a complex issue and a lot of people are not sensitive to what has gone wrong with it. If you read what the Prime Minister said in 1985 about what the objectives were for Canada, I suggest you that you take a careful look at what dispute settlement is. It took them two years to negotiate what they got and then they gave themselves seven years to fix it up.

Mr. Dietsch: I am just trying to further my clear understanding of the position of the organization in terms that I understand. In relation to it going from 50 per cent to 60 per cent, that is where you would find it acceptable because of all the other intricacies of the automotive parts that would be part of the overall car--that is what you are saying--the transmissions and those types of plants that would come in that would be North American content. That is really your bottom line, and at the 50 per cent you do not see that becoming a reality.

Mr. Lonmo: You are absolutely right, and what we are talking about is that if some people say it is a good deal, what we want to do is make a good deal a good deal better. It has to be 60 per cent or we are going backwards very significantly.

The other big issue is, the people will say the companies, the motor vehicle producers, will stay in Canada and maintain their present status because they received \$300 million, and that was in calendar year 1987, in forgone duties because they were meeting the safeguards of the auto pact. That is a bit of a fool's paradise, because what that means is that while the duty is 9.2 per cent--that is what the savings, the forgone expenses were, you might say--you did not have to pay.

Canada is now in its second year of the Uruguay multilateral trade negotiations. If history is any teacher to us at all, it will show that the tariff of 9.2 per cent will be cut somewhere between 40 and 60 per cent and that \$300 million, which is spread among all the companies, the truck people

as well as the Big Three, will come down to somewhere between \$120 million to \$180 million.

That may be a lot of money--I do not know about the politicians, but it certainly is to the people who work in trade associations--but let me tell you something. The current exchange rate from the Mexican peso to the US dollar in a Maquiladora, including direct and indirect labour, right now in automotive assembly plants is 69 cents an hour. Give that a little consideration and see how long it takes you to burn up \$180 million. It is not very long. No one should say, "Well, yes, but they are getting \$300 million and that is going to be a major inducement."

By the way, Canada is still a good place to do business; I am not suggesting that. What I am suggesting to you is there are some issues that some people had better start focusing on because this is not going to last.

Mr. Dietsch: I am glad you threw that last line in about Canada being a good place to do business.

Mr. Lonmo: You bet. I happened to be born in this country. I have had a choice of living in the United States and I happen to be living in this country. The truth of the matter is this is a good place to do business. We just do not want to see it get screwed up.

Mr. Ferraro: How long has Volvo been a part of the auto pact?

Mr. Lonmo: Volvo happens to be one of the original members of the auto pact. That means that Volvo was in production in Canada prior to January 18, 1965.

Mr. Ferraro: Maybe this is a redundant question, but if the car makers we have now, the Big Three in particular, General Motors, Chrysler and Ford, are indeed going to import a lot of the cars they are going to sell in North America from abroad and/or parts--and I am making that assumption--and if you are looking at the idea of free trade in the pure sense of the word, which of course it still is not, why the hell would the federal government exclude any other foreign company, say, from Korea, from joining the auto pact?

Mr. Lonmo: From getting into the auto pact?

Mr. Ferraro: Yes.

Mr. Lonmo: I do not think the federal government had a great deal of choice in the matter. I think the Americans said, "Look, enough is enough." Basically, what the auto pact does is allow qualifying companies to import vehicles and/or parts, components and parts thereof, from any country in the world, not from the United States, but from any country in the world, as long as they meet two conditions: (1) they have production to sales ratio of one to one; (2) in the case of automobiles, they have Canadian value added to cost of sales of 60 per cent.

The Americans are not as dumb as some folks in this country think. One way you meet those obligations is to build cars in Canada and ship them to the US. That is one thing.

The other point I want you to be sensitive to is that, in September 1987, 40 per cent of all the cars that were registered and sold in this country were assembled offshore. That has nothing to do with the parts that

are coming in. You go into some auto assembly plants and, for as far as you can see, the transmissions are made in Japan. I am not criticizing the Japanese. What we see is a lack of an automotive strategy from the federal government in this country. What we have got are the companies who are doing business here saying, "We have to be competitive."

When you speak to these folks on Thursday of this week, you are going to have an opportunity of asking them, "Why are you doing this?" They will tell you, two of the Big Three will tell you, that they are going to be the fastest rising importers in terms of units and values of offshore cars in the next two years.

Mr. Ferraro: Maybe because it is Tuesday, but I am still not sure--and if indeed the devaluation of the American buck gets closer to the Canadian, I think it adds emphasis to it--why the United States would not, in essence, say, "We really cannot compete with Canada as far as getting a foreign car manufacturer to come to the United States. They are all going to southern Ontario." Why is that not what they are saying?

Mr. Lonmo: You are making some very fundamental mistakes here. I suggest you read Automotive News. It lists, in some cases by the page, all the offshore plants that have established in the United States, the products that they manufacture. When you look at what the offshore folks are doing in Canada--and by the way we are not being critical of what they are doing--there is a certain environment established. It has attracted them. They have come understanding those rules and some would say the rules have been changed for better or for worse.

These companies are in business to make a product and what they are doing is coming to North America to ensure that they have access to North America. If you think that there are not going to be some changes in US trade legislation after November 1988--it does not matter whether it is Democrat or a Republican, you had better be ready for some pretty strong changes. I do not think the United States are going to see the US auto industry go the way the US steel industry went. It is not going to happen.

Mr. Ferraro: I am not satisfied that I understand. Let me ask my question by way of an example. I make cars in Italy, which is probably appropriate, considering my name, and I want to set up a plant in North America. The idea is to get access to the North American market. I am excluded right now, because I am an Italian company, Ferraro Enterprises or whatever, from getting into the auto pact, according to the terms of this free trade deal. Unless for the differential in the buck, why would I want to come to Canada and not the United States?

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Mr. Lonmo: Even under a best-case scenario--let us not kid ourselves--I suggest you would go to the United States where 90 per cent of the market is. Let us be perfectly frank here. Everybody in the world wants the same thing. Whether you go to Europe or the Far East, everybody wants access to the American market on as reasonably assured a basis as possible at the lowest possible duty rate. I have already suggested to you that, in September 1987, 40 per cent of the new car registrations were coming in and paying duties. From our point of view, we believe the tariff and the safeguards are nugatory anyway. They are not going to impact on anything.

Mr. Ferraro: If you are saying they would because the major thing is

to get into the North American market, particularly the US market, then why in hell would the United States agree to a deal that would preclude this Italian company from access to the auto pact, if its chances of going to the United States are every bit as good?

Mr. Lonmo: I think that is a pretty easy question to answer because what it does is it loads the dice in favour of the United States by not having them under the auto pact. If you have them under the auto pact, what it means is they could bring cars into Canada from anywhere in the world and offset. Just think back. When Studebaker was building cars in Hamilton, how did Studebaker make money? It is a funny thing. They made money by importing Volkswagens duty-free, selling them to Volkswagen Canada and, instead of 15 per cent duty, they charged them only 7.5 per cent duty. They split the duty. That was quite legal under the auto pact.

Now the Americans are not going to see, I think, the auto pact kept in perpetuity the way it was, where companies can come in and establish facilities in Canada. Quite frankly, the only way of meeting your obligations, with some exceptions, is to export to the United States using third-country components. The auto industry and the parts industry in the United States want basically what we are looking for, and that is to get as much opportunity to participate in the North American industry as possible. I can tell you the free trade agreement is only one link in a chain, make no mistake about it.

You have the auto pact, you have the free trade agreement and you still have 40 per cent of market you have not even thought about yet, and the tariffs are going down. That is why we have tried to make the point that an automotive strategy has to come. The strategy may well be no strategy at all, but it has to come. We have been promised that by two cabinet ministers in Ottawa. Unfortunately, the one changed his job. The other one is still there, but he has not delivered.

Mr. Ferraro: This is my last question. Did I understand you correctly that in the present context you are not big fans of this deal, to say the least? If you got the 60 per cent you would be. Is that a fair statement?

Mr. Lonmo: Yes, that is right. It is not perfect, by the way.

Mr. Ferraro: No, we will never have a perfect one, quite frankly. You also indicated--and I agree with you; we have discussed this over the last two and a half years, the chairman and some of my colleagues--there is no industrial strategy in Canada, and probably never has been that we are aware of. You may take issue with that, having been a former federal bureaucrat, but then you are also saying, "OK, there are General Agreement on Tariffs and Trade rulings." Indeed, most people are saying: "We do not like this particular deal. We agree with free trade but we do not like this bad deal." And they are saying, "OK, big mouth, what is your alternative?" We are saying, "Go under the GATT."

What I hear you saying is, yes, we can go under the GATT but we do not have to be devout, and have not been historically, in carrying out the wishes of GATT. Is it not really putting Canada, if you will, in a difficult position? Quite frankly, if we are saying we do not like this deal, in my view, our only alternative is to be a strong component of GATT. Whether we like it or not, the perfect analogy now is the wine industry. The wine industry is sold out in the free trade agreement. Coincidentally perhaps, GATT comes down and says, "You made some mistakes in the wine industry."

Unlike some of my colleagues in the New Democratic Party, who say, "Fight it," I suspect yes, you can fight it to a degree, but quite frankly you have no alternative in the end but to live up to it, because if you do not, then you are in a vacuum. Any response to that?

Mr. Lonmo: I am not trying to defend my employment as a federal civil servant but I can suggest to you that when the auto pact was signed, you did have an automotive strategy, an industrial strategy for Canada, because 96 per cent and 97 per cent of all the cars that were sold in Canada were built by the Big Three. I think you did have a strategy.

Mr. Ferraro: But not necessarily an industrial strategy.

Mr. Lonmo: Canada did not have an industrial strategy per se and Canada will likely never have a comprehensive industrial strategy, make no mistake about it.

The point about the GATT is, and I tried to make the point briefly today, that what we are looking for is reciprocity. When you look at import numbers you cannot help but be amazed--and this is not a criticism, it is a statement of fact, because these folks were in my office last week and gave me the numbers--that in Japan last year they sold 4.5 million new cars. They had 100,000 imports. Those imports were all carriage trade cars with maybe minor exceptions. They were Mercedes Benz, BMWs and Jaguars. It is not a criticism, it is a statement of fact.

The problem is that under GATT the way we are right now is that we do not have reciprocity. How many North American cars are being sold in Japan, for whatever reason? We are not criticizing those folks. The fact is that they are not being sold there. How many cars are being sold from anywhere in the world into the European Community? I will tell you. They have about between 10 and 11 per cent of the market and they are not going to have any more. It is really quite simple.

People talk about the difficulties they have with our going to 60 per cent here in North America. Some of the companies have been identified in the press and so forth, and we are not going to do that. They have the right to make comment. The point is that some of those same companies, in their efforts to stay in the European Community and get their vehicles duty-free movement in the community, have agreed to 80 per cent. When those companies come to you and tell you they cannot meet 60, I suggest you ask them why it is that two of them have agreed to meet 80 per cent on the United Kingdom and their production in order that they can get their cars into continental Europe. I think it is really quite simple. We do not have reciprocity. That is the problem.

Mr. Chairman: Mr. McCague has a very quick question, with no supplementaries.

Mr. Lonmo: I hope it is an easy one.

Mr. McCague: It is easy. Careful listening, I think, would indicate that you may have some problems down the road, for whatever reason. But I have given you five points there and I would like you to tell me which is the most ideal, in descending order: (1) the status quo with the auto pact, (2) the 90-cent dollar with the auto pact, (3) the free trade agreement, (4) the free trade agreement with 60 per cent in it and (5) a 90-cent dollar with either of (3) or (4)?

Mr. Lonmo: What time are you breaking for supper?

Mr. McCague: My question really was, would you put those in descending order, the most desirable being at the top? I think an explanation probably is not necessary, but you might feel it is in order to explain your position.

Mr. Lonmo: I think only a fool would try to answer those questions that way. You have to be far more precise than jotting down quick questions. The point is that you have to have the tax rate right; the general overall cost of doing business has to be right; there has to be a reasonably secure, long-term outlook for business, an outlook for the value of the dollar and so forth.

If you said that everything is the way it is, with the dollar at X cents vis-à-vis the United States, then you may get someone more foolhardy than I to answer your question, but it is not that simple, I am afraid.

Mr. McCague: I understand that it is not, but those are all eventualities I would have thought you should have-- It must be a good question, or you would not refuse to answer it.

Mr. Lonmo: Oh, it is a hell of a good question. I am just not going to try to answer it.

Mr. McCague: I am satisfied that the question is all right if you will not answer it.

Mr. Lonmo: There is nothing wrong with the question.

Mr. Chairman: With that, I will bring this discussion to a close. The transcript of this session is one that I am going to go over with a fine-tooth comb because you have got a lot of interesting background information and lore that will be of the greatest interest to the committee. We will use your deliberations and your presentation in discussing both free trade and the prebudget. We appreciate it very much.

Mr. Lonmo: Mr. Chairman, I would like to thank you and the members of your committee.

I would also like to get from the clerk of the committee your address, because we will send you this afternoon by courier a copy of the policy position we put together for Simon Reisman. We will also send you copies of our statement, which I think is relevant. Today I happen to have 20 or 25 copies here that we can leave with you. We will also give you a copy of the speech I gave to Daniel Johnson in Quebec and his group of businessmen.

I would like to make one other point, that if you have any further questions, I will be happy to answer them. I also ran the auto pact in a technical sense for nearly six years so I understand how it works. If you have any questions, I will try to answer them.

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Mr. Chairman: Thank you very, very much.

Next is Mr. Carnegie, general manager of the Ontario Chamber of Commerce. I am sorry; we got started late this afternoon, so we are running 15

minutes to half an hour late. I apologize. We have your brief in front of us. We received it only this afternoon, so if you can lead us through it, we would appreciate it.

Interjection: That is not Mr. Carnegie.

Mr. Chairman: Oh, I am sorry.

Mr. Bropey: I will explain just who we are, sir.

Mr. Chairman: All right.

ONTARIO CHAMBER OF COMMERCE

Mr. Bropey: Mr. Carnegie, the general manager, is unable to attend. My name is Peter Bropey. I am the president of the chamber, and I am also vice-president, corporate affairs, of Xerox Canada Inc. To my left is John Armstrong, who is the manager of tariff and trade affairs of Dofasco Inc. and is a member of the US-Canada trade committee of the chamber. To my right is John Sanderson, chairman of the Ontario Chamber of Commerce and vice-president, public affairs, of CP Trucks.

The Ontario Chamber of Commerce represents some 60,000 business people across Ontario through 150 chambers and boards of trade, as well as 400 individual corporate members of the Ontario chamber. Our membership stretches across all sectors, large and small business, Canadian-owned and multinationals.

Our members' initial support for a Canada-US free trade agreement was confirmed in a Gallup poll of the members in the late summer of 1986 and was based on the recognition that the United States is by far our largest and nearest export market and that considerable benefits would accrue to Canada through a relaxation of the rules and regulations governing trade between the two countries. Our assessment of the free trade agreement is derived from the views expressed by our members, a study of the provisions and review of the published commentaries of a wide variety of informed Canadians.

Those of you who are familiar with polls may ask, "What about a Gallup poll that was taken in the late summer of 1986?" We are in constant contact with our members and we find that the general consensus within the membership has not changed from that time, when 70 per cent of our members told us that they favoured free trade and 70 per cent told us that free trade would be beneficial to their businesses.

We believe the agreement offers the following benefits, and these benefits have been stated by many: improved access to a market that we know well; improved access to a market which is 10 times the size of Canada's; the staged or phased elimination of tariff barriers, permitting varying adjustment periods to meet different industry needs as the changes occur; significant inroads being made into nontariff barriers; a greater degree of long-term stability in our trading relationship provided by excluding Canada from future protectionist US trade legislation, much of which is on the books or on the order table at this time in the US; increased choice and cost competition which will benefit consumers; the strengthening of Canadian business and industry through the economies of scale which will be achieved with increased specialization and with access to the larger marketplace; and a faster, less easily influenced dispute settlement mechanism, which will be put in place by the agreement. It is bilateral rather than comprising two unilateral systems

as at present.

That is not to say that we feel the free trade agreement is perfect. It is the product of extensive negotiations and as such does not represent the optimum position of either party to the agreement. It does, however, represent considerable improvement on the present situation and will open new opportunities for Canadian business. In particular, we welcome the stability the agreement would bring to our trade relationship with the USA, our largest trading partner.

We believe that the agreement will very likely be ratified by the federal legislative bodies of both countries in 1988, and for that reason we believe it to be extremely important that business, government and labour begin now to position the province to take full advantage of the benefits of the free trade agreement and to address adjustment needs that may arise.

We see a new environment for Ontario following the implementation of the agreement, or even if the agreement itself is not ratified. In planning the futures of their companies, business people always face numerous uncertainties, and in that context the eventual fate of the Canada-US trade agreement is simply another uncertainty in itself. The uncertainty exists on two separate levels: that of the need to have the agreement adopted in both countries and that of the Ontario government's response to a fully finalized agreement or to the defeat of an agreement.

The Ontario government has suggested that it might challenge in the courts the constitutionality of the free trade agreement, or perhaps not implement those parts of the agreement over which it has jurisdiction and control. We believe these declarations on the part of the Ontario government are making some investors nervous. We are concerned that, due to this uncertainty, some companies that are considering opening in new locations may not choose Canada or Ontario and that existing companies considering expansion may already be deferring these decisions pending the outcome of the free trade agreement ratification process. As a result, we may be missing opportunities to prepare. Instead of gearing up, we may be marking time.

Planning for the new environment--and whatever the final decision is, it will be a new environment--is extremely important to the province's future economic prosperity. The mixed signals that the business community is receiving on the free trade agreement are serving to dampen the aggressive planning that we think should be taking place now.

There are a number of areas in which our competitive performance could be improved. Ontario must continue to increase its exports, primarily in the US markets, and an appropriate means must be developed to assist employees affected by change. Regardless of the outcome of the free trade debate, 1989 will be a new era for Ontario. It will be a new era on the one hand if, as we expect, the free trade agreement is ratified and implemented. There will be new opportunities and also some new and old problems to be dealt with.

It will equally be a new era, on the other hand, even if the free trade agreement is not ratified and is thrown on the scrap heap, for then we will have few new opportunities and many old and new problems, starting with the grave difficulties which will be faced by the USA's trading partners as a result of the trade bill presently pending in Congress. This is also likely to be only the start of a surge of protectionism of which we are already seeing the beginning as a result of the weakening of the US dollar. Much of our economic success, and our ability to maintain a broad safety net, has been

achieved because of the wealth created by our exports; particularly our exports to our primary market, the United States. We must not toss this away.

We feel that every care must be taken to ensure that our capability is not diminished, but rather is expanded. More Ontario companies must be encouraged to export. Companies already embarked on export initiatives may benefit from increased opportunities to expand their skills and the skills of their people. The Ontario government offers many such programs and we were encouraged that the speech from the throne expanded on these programs. Many potential exporters would do well in the US market and need not financing, but expertise in learning how to do business in the US.

In our submission last autumn to the subcommittee of cabinet ministers reviewing free trade, we referred to the experience of Kakabeka Timber, one of the Ontario Chamber of Commerce's 1987 winners of the Outstanding Business Achievement Award. Kakabeka Timber's indebtedness to the Ontario government for the assistance given it in exhibiting in, and then exporting to, the US is well documented. Many small and medium-sized Ontario businesses would also do well in the US market given similar high-calibre advice.

We cannot, nor can anyone, we believe, accurately predict the changes to come in the near future. We do believe, however, that there will be changes in employment opportunities and in the skills required to fill those jobs. This is not new. There are in place already in the private sector, in the labour movement and in government a number of projects, programs and initiatives to enhance the skills and broaden the employment horizons of many employees.

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The new Industrial Restructuring Commissioner will, we hope, serve as a focal point and catalyst in addressing any major specific adjustment problems that may arise. We believe part of the work of the Industrial Restructuring Commissioner should be to ensure that there is a greater awareness of the programs available, that programs are not being duplicated and to ascertain whether more options should be introduced.

Among the larger companies in our province, we have seen in recent months a flurry of activity in the mergers and acquisitions area. This activity has been particularly marked in the financial services sector as that industry moves to provide itself with the broader financial base future success demands. We believe that similar activity is likely to take place in other industries as multinationals pursue world product mandates, international specialized production mandates or their equivalents, smaller companies merge or expand to increase their strength and as all companies strive to develop market niches which exploit their strengths and abandon product lines and/or services for which there is little demand or in which they are presently uncompetitive.

We expect to see considerable rationalization and restructuring of business and industry in the province, for which we must all prepare. While none of this activity is new to Ontario, we do expect that the accelerated pace at which change is likely to occur will be such that careful management will be required. We believe that, by and large, the changes in the near future will be positive ones. In most instances, they will work towards improving the quality of life of Ontarians. We have already, for instance, seen the way in which the introduction of new technology is shifting demand away from physical requirements for many jobs to knowledge and skill requirement, and in the process is improving the attractiveness of the job.

Attaching a high priority to research and development in science and technology will help to ensure that improvements continue.

We believe that Canadian business and industry will utilize new and high technology increasingly as it meets the pressures to modernize and compete. This will require workers to learn new skills, but it will also improve the quality of the jobs to which they apply them. Ontario must, through our whole school system, from primary to post-secondary, foster individuals who recognize the need for flexibility and who have the ability to adapt to change. Life-long learning and relearning will be an increasingly important factor in everyone's life.

Ontario is often referred to as "Canada's manufacturing heartland" and as "the engine of growth for Canada." With careful planning and good management, we see no reason that this should not continue to be the case. Indeed, we feel that this notion should accelerate. Our basic recommendations based on the foregoing comments are as follows:

1. Ontario businesses should be given a clear indication that they should be positioning their companies now to take full advantage of the opportunities which free trade between Canada and the US will offer.

2. As part of this process, more companies should be encouraged to participate in programs designed to improve their exporting expertise.

3. Should serious employment displacement occur, systems must be readily available to address the question of re-employment and retraining. The Office of the Industrial Restructuring Commissioner should be able to draw on various government ministries to put in place a program or programs to address the specific needs of the employees affected. This might necessitate retraining programs, geographical relocation programs, or the introduction of appropriate early retirement and severance packages at the extreme.

4. Public education programs in the province must be strengthened along the lines which government has been considering, to ensure that graduates of our secondary system have appropriate basic skills; that apprenticeship programs, referred to encouragingly in the speech from the throne, address the changing needs of business and industry; that our post-secondary institutions are involved in the research and development needs of business and industry; and that adult learning and retraining programs are available on a flexible basis. Again, with respect to the research and development needs, we highly commend the initiative taken last year with respect to the centres of excellence in Ontario.

5. Private sector initiatives to stimulate business activity, such as our own Computerized Ontario Investment Network program, which matches investors and entrepreneurs by computer devices, should be encouraged.

In conclusion, whether or not the free trade agreement is ratified by the Canadian Parliament and the US Congress, a number of initiatives will be necessary in the private and the public sectors to enable us to take advantage of the dominant economic opportunities and to correct and overcome serious obstacles between now and the year 2000.

Beyond the immediate and perhaps obvious need to increase our exports and to think through employment adjustments, we will have to review our policies relative to such issues as transportation, in particular our road network, incentives, technology development and diffusion, training and

education at all levels, social service programs and housing. As always, spending priorities will have to be carefully considered and consensus sought so that adoption of all or some of the programs do not simply result in increased deficits.

We believe strong provincial government leadership is a prerequisite to successfully meeting the challenges ahead. The chamber of commerce, though the considerable expertise of its member companies and member chambers across the province, will be pleased to work at any level with appropriate groups in both the private and public sectors to help design and consult on co-operative initiatives to address our future.

Mr. Ferraro: Mr. Brophey, I thank you and your delegation for the presentation. I enjoyed it. I happen to be a former member of the chamber, and I am a big fan, quite frankly. By way of digression as well, I do want to commend you on your COIN program. I am very familiar with it and I can say the limited government involvement provincially has borne tremendous fruit, and I wish you all the best in that regard.

Now that I have softened you up, Mr. Brophey, I want to ask a very generic question, and I say this--

Mr. Chairman: The chamber does not have a good doctor here today.

Mr. Ferraro: Just as well.

I and some of my colleagues have been dealing with this free trade issue for almost three years, and speaking for myself, I can tell you I learn something new just about every day. I am just now starting to feel comfortable that I know what I am talking about when I talk about the free trade deal, quite frankly.

Mr. Mackenzie: Watch out.

Mr. Ferraro: Members of other parties have been masquerading that they understood this deal for years, but the reality is that only now the cream is starting to surface, if you will.

Having said that, regarding the Gallup poll that you took in the summer of 1986, I will make this statement: I do not think it is unique to the chamber of commerce; many other organizations have taken similar polls and they have come out basically saying, "Yes, we are in favour of free trade." I am not sure, quite frankly, even today, as I go and speak to various audiences, that they understand this deal.

Add my name to the list and the Premier's name to the list and, indeed, speaking for my party, everybody's name to the list if indeed what you are saying is, "Are you on favour of free trade?" The answer without hesitation is yes. We have said that in our reports, both Conservatives and the Liberal government, but when you question the people about this particular deal, I suggest to you, Mr. Brophey, it is an altogether different story, especially when--albeit, there is bias; it is difficult not to be--I or any my colleagues present the negative aspects of this deal, aspects that make it in our view a bad deal, then there is some hesitation.

My question to you is, do you feel comfortable with the fact that you are saying, "Yes, the chamber of commerce is in favour of this deal," when in my mind--and you can correct me--I do not think the vast majority of your

members really understand this deal? I think they are definitely in favour of free trade, but this particular deal? So my question is twofold. Do you think they understand this deal? Second, is the chamber planning to do another survey on this deal?

Mr. Brophey: Had we taken the survey in 1986 and then ceased speaking to our members, I would be doubtful that they understood the implications of the deal, but we have an ongoing and constant dialogue with our members through meetings, visits, through telephone conversations--not unlike a constituency situation, I might say--and through various correspondences with them. While we have had questions and we know there are particular sectoral problems, we feel that all of our members--not all of our members; no one can speak for all of his members--the majority of our members have really applied themselves to the free trade negotiations and the conditions and understand them for their industry.

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The Gallup poll was not just one question. It was a series of questions that included questions such as, "Are you in favour of free trade?" and, "Are you in favour of free trade as it will affect your specific industry and your specific company?" There was always a different 70 per cent at work there. Some of them were in favour of free trade conceptually but had some concerns about it with respect to their own activity.

I too have concerns. A year ago, when I became chairman of the chamber's US-Canada trade committee, and subsequently became president, I kept saying that the 70 per cent is reassuring. It gives me a kind of franchise, a kind of understanding, of what our members want. I am concerned about the 30 per cent. Who are they and what are their concerns? We have not identified them all, but in conversation, we found them to belong to some of the sectors about which concern has been expressed: the textile people, some of the food processing people and some of the auto parts people. But I am confident that if we did another poll--which, at this point, we do not plan to do and I will tell you why in a moment--we would find a similar number. It might be 65, 70 or 75 per cent, but I think we would find that order of magnitude.

We think the subject of free trade--I do not mean to say it has had too much exposure--has had lots of exposure and we felt the time has come to stop asking about free trade and its details and to start getting ready for the new era that I spoke of in my remarks, with or without a free trade deal. That is why we are focusing, and want our members to focus, upon the actions they are going to have to take and press for in order to deal with that new era that starts on or about January 1, 1989.

Mr. Chairman: Supplementary to that, have you attempted to educate your members, particularly the 70 per cent, as to how the deal does affect their particular sector. You said you have asked them the question, are they satisfied? But do they have access to, or even a copy of, the agreement and an analysis of it?

Mr. Brophey: Yes, they have. I do not believe we have mailed the agreement out to them, but we know that various bodies have been mailing agreements out to just about everybody in sight. We do get requests for information and materials on the agreement and when those requests come in, particularly from some of the smaller centres where they perhaps feel access is not as easy as it might be, we send that out to them or refer them to the sources. The question was: Are we trying to explain the industry sector

conditions to them? Yes, and we are referring them to those sources which would assist them in understanding.

Mr. Chairman: I can indicate that I have spoken to members of my own local chamber who thought they liked the deal but did not understand the full impact on their sectors, in some cases, and probably would have answered as part of the 70 per cent--certainly back in 1986.

Mr. Brophey: It is difficult for me to answer those specific cases, but it seems to me that most business people have other sources available. Most of our members belong also to other specialized trade associations such as the Automotive Parts Manufacturers' Association of Canada, the information technology association and so on which have much better specialized resources than we do on those sectoral issues.

Mr. Kozyra: Let me first say that I enjoyed the presentation. It was considerably different from many of the others. It presented a very positive vision and also the things that need to be done, so it used free trade almost as a springboard for a new social and economic order and perhaps a Utopia.

Mr. Ferraro: Sounds like the NDP.

Mr. Kozyra: It reminded me a bit of Animal Farm in the beginning and the vision there, and then things started to go wrong.

Do the government and the other forces have the ability to do what you have outlined needs to be done? The costs alone seem to be almost prohibitive in terms of the program you have laid out, the program that in some ways is far greater a nation rallying for a war effort or what have you. Has anyone stopped to calculate the costs for something like this?

Mr. Brophey: I think some of those changes and reforms are under way already. We are seeing the introduction of computer programs into our schools. We are seeing a greater focus on research and development, science and technology in the universities, and co-operative research between industry and universities. I think the centres of excellence, the innovation centres and the recent federal initiative taken under the National Advisory Board for Science and Technology all indicate there is an awareness here and they are moving towards that.

I do not think it is so much a massive investment of funds as it is a determination and understanding that those are initiatives that have to be taken, perhaps a sense of priority-setting, too, that our educational needs will not only be bricks and mortar, but will be ensuring that the curriculum provides in primary, secondary and post-secondary education for an era when science and technology, research and development will be one of the driving forces in the economy.

The real challenge to our industry, it seems to us and to our members, is to ensure that they understand what the technologies can do for them in terms of improving their productivity and competitiveness. Many of the resources are out there now, as I say, in those centres and in our universities.

Mr. Pelissero: Just a question in terms of your membership. What percentage of your members would fall in the export business, in terms of relying on trade into the United States as either a small or large percentage of their makeup?

Mr. Brophey: I guess I would start out by saying probably not enough. I think a lot of Canadian business people do not look into the export markets as vigorously as they should. I would guess that 40 per cent to 45 per cent would be deriving significant revenues and profits from the export field, because many of our members are smaller businesses in the services industry and so on who do not feel they have or do not have those export opportunities.

Mr. Sanderson, on my right, was president of the chamber last year. I do not know, John, whether you have seen any statistics that might bear that out.

Mr. Sanderson: Actually, no, I have not. With some 60,000 members spread across every community in Ontario, they are in virtually every business in every community. So they probably represent the average figures for Ontario in terms of the percentage of firms that export. I do not know that we have an actual quantification of that number.

Mr. Brophey: As I look through our list of members, I see companies ranging from Dofasco and Stelco down to Ottawa Valve and Fitting Ltd. and Acme Building and Construction, which probably does not have export potential, but I think Toronto Gear Works Ltd. does and I think Ridsdale Steel Fabricators Inc. does. There is a list here of members who I think represent a very broad array with a lot of export potential.

Mr. Pelissero: The reason I ask is that when you say 70 per cent of your membership is supportive of the concept of free trade and, because obviously in 1986 we did not have the elements or the details of the agreement, and that you feel that figure would hold if you were to do another survey in terms of the actual detail, I guess I just want to reinforce what Mr. Ferraro said. If you ask people, they are in favour of liberalizing the trade barriers between trading partners, but when it comes down to the details of this agreement, whether you are talking about the textile industry, the agricultural sector, the energy sector, which was not in the agreement, or any other natural resources and the implication is right back to your individual membership, then I have some trouble correlating it in terms of most of my constituents anyway. They do not understand the impact of the deal, either short-term or long-term, other than just being able to drive across to Buffalo and pick up things duty-free and bring them back. In fact, they cannot even do that.

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I guess just more as a means of a recommendation than a question, I would suggest an educational program. Certainly, I see the hearings that we are going through as an educational process, not so much for the members as for the public at large. As we start getting various interpretations--and as one delegation said, it took us two years to negotiate and seven years to decide what a subsidy is--those are the kinds of long-term implications. During that definition period, we are still going to be subject to action from the United States. Whether that prohibits some of your members from potentially exporting to the United States during that seven-year time period remains to be seen.

Again, with respect to the same thing I have heard I guess every time I have asked the question, 80 cents seems to be the threshold. If we get an 80-cent, or much higher, Canadian dollar versus American dollar, the whole deal--I have heard the term--shatters, falls apart, and that should cause us some concern as well. Do you hold along those lines, that about 80 cents is where there is a break point in terms of whether we are competitive in the United States?

Mr. Brophey: I think I would want to run to my bankers, many of whom are members of the chamber. I think that sounds like a threshold level. Perhaps I might comment on the gap that you seem to detect between those who are in favour of free trade and those who might have an export opportunity.

Let me tell you about the experience of my company, Xerox Canada. We manufacture components in Canada and export them around the world. In 12 years, we have grown that export business from zero in 1973 to \$120 million last year. In order to export those copier components, we buy a considerable amount of components, parts and supplies from Canadian suppliers. As far as they are concerned, they may not be exporting anything, but our access to the American market as part of the multinational corporation provides them with a market for parts and components--I can name companies if necessary--which would not be there if we were not doing that.

So free trade not only provides direct business for corporations, companies and individual businessmen but also provides an expanded market which they can sell into, perhaps indirectly in some of the cases I have mentioned.

Mr. McCague: I would like to thank the chamber for this brief and, in particular, the point that is raised in here, which I think is more forcefully raised, if it is not even the first time it has been raised, about the business uncertainty that exists because of, among other things, what we are doing in this committee.

Mr. Ferraro is encouraging all of us to get out and really explain this to our constituents. I think what he is encouraging us to do is to get out and talk against it to our constituents. Be that as it may, I do not have any particular question for you, only to suggest that you help Mr. Sterling and me in persuading the government that it is wrong on this one, and let us get on with it.

I think it is the long-term implications of the whole thing that we do not seem to want to deal with at this time. I, for one, think there is a lot of wisdom in the business community, and that collectively seems to be, "Let's get on with it in the best interests of Canada."

Mr. Ferraro: Mr. Chairman, on a point of order, I merely want to give the Canadian people the facts and let them judge for themselves.

Mr. Chairman: Supplementary to that, I was just wondering if you have any evidence of any instances where decisions are being delayed or openings are not taking place that might otherwise be.

Mr. Brophey: No, sir, I do not. I merely state that in a climate of uncertainty I think it is reasonable to expect that people are holding off, or could be holding off, in major decision-making. I guess I would say the same thing following a stock market crash or any other situation that created uncertainty.

If I might just comment on Mr. McCague's remarks, we are ready to assist anyone in order to better understand the business community's views on free trade. That includes, of course, the offer and recommendation we have made in our report, that we want to work with the government and with government officials in helping us to prepare ourselves and industry for the new trading era that is going to come, with or without a free trade agreement.

Mr. Chairman: You know, of course, the agreement has not been ratified in the United States. The debate period is on now. The debate period that was given to us by the federal government was a very short one indeed, from December 11 to January 2, one that everyone in Ontario did not feel was sufficient.

Mr. Brophey: I have colleagues in the United States who keep reminding me of that.

Mr. Chairman: Mr. Sterling wants to have the last word.

Mr. Sterling: I did not have the opportunity to be here for the whole presentation, but I did hear it over our television set, which we can hear during these committee hearings, and I had a chance to read your brief.

One of the things that I think we have failed to put forward in terms of the negative attitude of this government towards the agreement is that the general feeling between businesses on both sides of the border and the improvement of that environment in the next 10 to 20 years will be significant.

One of my manufacturers, Lumonics, which I think is the third-largest producer of commercial laser products in the world, sees the greatest part of this whole agreement being the fact of easy border entry and access to the United States market. They cannot exist, the people in the high-tech industry in the city of Kanata, which I represent, without good access to the American market.

I think the attitude of the agreement, the whole idea that we are willing to look at barriers that have been there before, is probably more important than the words involved in it, and this whole point is being missed in Ontario because of the extremely negative attitude that was taken, I think, for political purposes during the election.

Interjection: I do not think so.

Mr. Sterling: So I think your comments with regard to the environment are extremely important.

Mr. Chairman: Mr. Mackenzie, do you want to mention that we are not being negative enough? No. All right, thank you.

Thank you very much for your presentation. It obviously was received with a great deal of interest, and we will continue to work with you and listen to you.

Mr. Brophey: Thank you, Mr. Chairman, members of the committee.

Mr. Chairman: We have with us now the members of the Canadian Manufacturers' Association, Ontario division.

It has been, and still is, a long, hard-working afternoon for us, so please bear with us. We appreciate your being with us today. We are catching up a little bit on the time.

We have with us today representing the CMA, J. M. Stewart, chairman, Ontario division, senior vice-president of Du Pont Canada Inc.; Barbara Caldwell, a member of the Ontario division executive committee, CMA, president of Cleanwear Products Ltd.; D. P. Walter, director and president of E. F.

Walter Ltd.; and J. L. Thibault, who is the president of the CMA.

We have your presentation in front of us. Perhaps you could lead us through it and then entertain some questions.

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CANADIAN MANUFACTURERS' ASSOCIATION

Mr. Thibault: We are very pleased to have this opportunity to chat with you about what I suppose is the issue that has been most thoroughly and exhaustively discussed in the CMA since the association wrote the original tariff for Sir John A. Macdonald in 1871.

What is different today of course is, as you know, the association is quite supportive of this free trade initiative with the United States. I think the fundamental reason is that manufacturers in Canada are now of the view, and correctly so, that the name of the game is to ensure that we survive in the international global economy. It is with that sort of vision of how we are going to achieve that objective of competing in a global economy that we have approached this trade agreement and it is part of the logic that has driven our members to support the agreement.

I think you will find in manufacturing a number of concerns. I am sure different groups have expressed them to you, but by and large you will also find a great deal of confidence and a great deal of belief that Canada can compete with the United States, as we have for many decades, that the transition to a new trade environment is manageable and that we can do it, as we have in the past few decades, and that the status quo is really not acceptable, it is not really a viable alternative, and therefore the manufacturing community is quite supportive of the agreement.

Just as with every other Canadian, questions were asked in our forums about sovereignty and these kinds of concerns. We believe that the agreement satisfactorily answers those concerns. We believe that while the agreement poses some big challenges to manufacturers in terms of making the transition, it also provides tremendous opportunities and it is really up to us as Canadians to go for those opportunities.

With those very brief remarks, I would like to ask Mr. Stewart and Mrs. Caldwell to make a more complete opening statement and then we will have a dialogue.

Mr. Stewart: Thank you very much for the invitation to present the views of the Canadian Manufacturers' Association on the Canada-US free trade agreement. The CMA, as you know, represents large, medium-sized and small manufacturers in the province that manufacture in all sectors. Following my presentation, Barbara Caldwell, the owner of one of our small Ontario businesses and the vice-chairman nominee for the Ontario division, will speak to you from that perspective. We would be pleased to answer questions, any one of the four of us as it seems appropriate.

In our view, the trade agreement provides a strong foundation on which to build Canada's future trading relations and is an essential component in improving Canada's international competitiveness. The reality of Canada is that our standard of living is only sustainable if we are able to export. We export more per capita than virtually any other industrialized country. Ontario has a great deal at stake in export trade, particularly in trade of

manufactured goods. Nearly half of Canada's total exports come from this province. Ontario exports to more than 150 countries. The prosperity of this province is clearly built on trade.

The second reality is that the US represents 80 per cent of Canada's exports and this is unlikely to change for obvious reasons of geography and economics. This is especially true for Ontario, which is the second-largest trading partner of the US. More than 90 per cent of our exports go to the US.

The central objective of Canadian manufacturing in the negotiations was to obtain a substantial improvement in our access to that large US market and greater security of that access. Manufacturers in Ontario need the opportunity to grow in a larger market in order to confidently make the investments in sophisticated advanced technology that are necessary to become truly competitive.

A core element of access is the removal of tariffs, and this was fully accomplished in the deal. From the point of view of our ultimate objective, to develop a truly dynamic, internationally competitive industry, the removal of tariffs is not a negative development, as has been commonly portrayed in the media. Manufacturing has been adjusting well to the continuous lowering of trade barriers over the last four decades. In virtually every industry, manufacturers have sharply increased their ability to export.

Economic theory indicates that tariff reduction releases consumer income, which in turn generates new consumer demand, increased economic output, investment and employment. Canadian firms have seized the opportunity to compete in the larger market. The potential benefits from increased exports provide both an incentive and the means to continue the growth and development of the Canadian economy.

We feel that the only real long-term economic security comes from our ability to compete effectively. The trade agreement will increase this ability to compete.

The focus on adjustment costs has usually overlooked the tremendous reductions in tariffs that have already occurred in Canada. Since the end of the Second World War, Canada has dismantled about three quarters of its protective devices. These tariff cuts have been absorbed, exports have increased and employment has been generated. Why should the future be different?

The government of Ontario has chosen to focus its public comments on the costs. We would like to focus on the opportunities.

In terms of our major goal of securing more assured access to the US market, we did not seek, nor was it realistic to expect to obtain, exemption from each other's trade remedy laws. The key to mutually assured access is the dispute settlement mechanism, which ensures better management of our trading relationships. It provides for the creation of binational panels that would make binding judgements on disputes about the terms of the agreement and on the application of each other's trade laws. The panel procedure applies particularly to antidumping and countervailing duty cases. This establishes the central principle which protects us from the unilateral interpretation of US laws and from blatant political manipulation.

While we did not get a new set of rules, we did get an important concession to write such a set of rules within five to seven years. We also

gained the important principle that the US now allows another country to have a voice in the application of its trade remedy laws and the prospect of jointly formulated and enforced rules. This is a valuable step forward. It moves dispute settlement to a binational body of trade experts instead of courts and lawyers. It should also limit the capricious and politically motivated abuses of the US system.

In addition to having a voice in the application of trade remedy laws, implementation of the agreement will mean that US trade legislation must contain a specific recognition of trade relations between the two countries. This means an end to the problem of Canada being unintentionally included in action directed by the US against other countries.

While we did not get all that we wanted in this first agreement, it represents substantial progress in the right direction, with a strong commitment to continue working at remaining issues. It offers an anchor of rationality we can hang on to in the turbulent protectionist waters. It also offers continued increases in our standard of living and the removal of many historical regional tensions between western and central Canada. Canadian consumers will be clear beneficiaries through lower prices and increased choice of goods.

We believe the agreement will benefit the various regions of the province. In northern Ontario, the prospects for the mining industry will be improved and our forestry products will be more competitive. In southern Ontario, the auto pact is not only maintained but improved, as there will be an additional stimulus to production in Ontario. The petrochemical industry has achieved the access to the US market it has long sought. Manufacturers, both small and large, will also have greater access. Ontario's world-class service industries and professionals can service a larger customer base and gain easier access to the US for temporary business purposes.

The government of Ontario had set six criteria by which it would judge the agreement. It is useful to review the agreement against these conditions. In our opinion, the agreement meets them.

There is a binding dispute settlement mechanism, a final court of appeal which will make our access to that market more secure than it is presently.

The auto pact has not only been maintained but has also been improved, as offshore producers will have a real incentive to buy Canadian parts and materials. We have come out better in the auto pact in the trade agreement than we would have had we been forced to renegotiate it by itself.

The protection of our cultural industries has not been diminished, as they have been exempted from the agreement and still are subject to investment restrictions.

The ability to use regional subsidies is still unchanged, and Canada is not granting an unlimited right to foreign investment, as we have retained our right to review large direct takeovers, and statutory limitations on ownership will remain in certain sectors.

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In conclusion, we believe the agreement will benefit Canadians in all regions of the country. The geographical proximity of Ontario to the large population areas of the US means this province will receive the largest

manufacturing benefits from the agreement.

I want to close on a more personal note. My original background was research and development and I think I could say that the central goal of my working career has been to develop truly innovative, dynamic and world-competitive secondary industry in Canada. In my company, we have never felt second-rate in comparison with anyone anywhere. We believe we can compete and are competing with the best and we want the opportunity to do so.

About a third of what we manufacture in Canada, which represents several hundred million dollars of sales, has been generated from our own research and development in Canada and the products coming from that research are exported to over 60 countries around the world. I have a strong personal pride in these products, having been part of their birth.

Let me give you what I think is a good example. At our plant in Whitby, we have a world-class manufacturing facility for specialty packaging films, mainly polyolefin and nylon film. You will be familiar with the plastic milk bag. We pioneered this concept and supply the whole system to dairies in Canada, including the bagging machinery, the film and all the associated services.

We are also one of North America's largest producers of nylon film. That, again, is a product that was invented in Kingston, and the only one in the Du Pont operation. In fact, in all these products we are the only producers in the Du Pont family worldwide and we export a great deal to the US and to other parts of the world. In some product lines, this is up to 80 per cent. In these specialty packaging products, we are second to no one in the world. In pouch packaging of liquids, we are probably the world leaders.

Today we have a very high share of the Canadian market, so our opportunity lies in exports, particularly in exploiting the large markets in the US. We are making progress doing that, but we would certainly be greatly helped by tariff reduction and by elimination of the disruptive nontariff barriers that face us.

In my opinion, there are many Ontario manufacturers who have the same belief that they are or can become world competitive, can compete with the best, and are therefore in favour of a trade agreement that will provide better opportunities to do so.

Speaking as a Canadian, I am certainly proud of our distinctive Canadian society. I want to see it retain that distinctiveness. I also want my children to have the opportunity for sophisticated jobs in a vibrant economy. In my opinion, freer trade does not threaten Canadian identity, but provides the economic base to continue its development.

Barbara Caldwell will now speak.

Mrs. Caldwell: There are, of course, many types of small manufacturers in Canada with a host of different problems. We are not a homogeneous group. All the same, there are areas where we have common interests and I should like to talk to those today.

Small manufacturers are currently operating in a highly competitive market where adaptability to changing conditions is the norm, not the exception. I believe the two strongest qualities small business people share are resiliency and the will to survive.

Over the past year or so, I have spoken to many of my colleagues on the subject of the free trade agreement. Their reactions vary and they include nervousness, concern about the resources we, as small business people, will need to access new market niches. Most of us have some difficulty understanding the details of the agreement, but there is a plus side and I think I am seeing a lot of excitement and the anticipation of new opportunities for small businesses.

Regardless of the outcome of the negotiations, we are, none of us, in the same place we were before the trade talks began. Each of us has been given the proverbial boot in the pants we needed to look at ourselves in a global context--and we at Cleanwear are no different--to set aside our parochial view of the marketplace and to look at not just the US but other markets as well and to work towards true global competitiveness.

The improved access in the agreement stemming from the elimination of tariffs and the removal of other trade restrictions will make small to medium-sized manufacturers more aware of the potential benefits of exporting, both to the US and globally.

I do not mean to downplay the cost of adjustment. The fact is that, as an owner of a small firm and one which manufactures clothing, I personally know my work force and I understand how traumatic it can be to lose a job. However, with any kind of growth, this is sometimes unavoidable. Changes in the trading environment pose less of a threat to employment than technological change, than shifts in consumer preference, than the emergence of new competitors or exchange rate or interest rate fluctuations. We suffer from all of those.

Change is inevitable in business and it is often uncomfortable. Employees generally adopt the attitude of their employer or the person they look to as their leader. If the people upon whom these new policies will impact the most can be assured that programs are in place to help them adjust, through retraining or through social programs for those who are not capable of making the transition, the comfort level rises. We can then get on with the job of increasing our productivity to make us competitive in this new marketplace.

The public debate over this agreement usually ends up in an argument about whether Canada can maintain a separate and distinct identity. This has always been a concern and will be one as long as we live next door to the United States. However, the US is not going to go away and neither is Canada. We have lived as neighbours for a long time.

Our sense of ourselves is deeply rooted in history and geography. Through hard work, we have created a proud and prosperous country. Closer commercial relations are not going to change our view of ourselves, I do not think, or for that matter our view of the US.

Speaking as Jim did on a very personal level, while I have some concern about the particular vulnerability of my own business, and I do, I do not believe that the status quo is an option. Small manufacturers, indeed all manufacturers, must look farther afield for opportunities to grow and I welcome the opportunity that free trade will provide.

Mr. Ferraro: Let me say to the delegation, I appreciate your presentation. I might, as an interjection, indicate that I have had a personal conversation with Mrs. Caldwell on the topic in the past and I certainly

respect her view and that of the committee.

Having said that, we could probably get into a discussion as to many of the comments made as far as access and so forth. I am not convinced that we have secured it and that indeed the tribunal in itself is of much utility. That is my belief, but also a belief substantiated by the legal experts and ministry experts we have at our disposal. I hope we are wrong and you are right.

The Canadian Manufacturers' Association is obviously content to pick up on Mr. Macdonald's indication of a leap of faith, quite frankly. I do agree that the status quo is not an acceptable option. I guess I am just concerned that the negative aspects of this deal outweigh the positive. That is my opinion, but I do know one thing: being a bit of a gambler myself, and I think you will all agree, any negotiation, as has been said many times, is give and take. I am wondering if somebody can tell me what the US gave up in this deal.

Mr. Stewart: That is a very general question. It is pretty obvious that there is not any real black and white in this. To some extent, we are saying as manufacturers that yes, a leap of faith is required. But I think our faith is in our ability to compete and our belief that in so doing we will be better, stronger and have a more successful manufacturing industry in Canada.

As far as the deal itself is concerned, there are as many opinions as you care to ask people. I am by no means an expert on the details of either the agreement or the dispute settlement mechanism. Larry has considerably more information on that. I think we can say, however, that it is the best deal we have. It is the best deal we are likely to get in the next decade. It seems to me that the alternatives are appalling: back to a little Fortress Canada. On that basis, yes, I believe we should proceed.

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Mr. Ferraro: I do not mean to be argumentative but I am curious. You said it is probably the best deal we can get in the next decade. I am not convinced of that. Maybe I am a perpetual optimist, but I am wondering whether you have any strong reasons to believe that statement?

Mr. Stewart: All this has taken an awful lot of will to get this far. If you are an optimist, I am surprised you are not with us on this subject and looking forward, instead of supporting more negative points.

Mr. Ferraro: I am with you. We do not want any tariffs and we want free trade. I am just not personally convinced that this deal is good.

Mr. Mackenzie: Do not bet any money on it.

Mr. Stewart: I think most of us who are really out there are prepared to stand up and be counted and to fight it out for markets in the world. What do we get? We get access to a huge market in the US.

If I speak of my own company, we have three or four products where we have the best product in North America. One of them is facing 12.5 per cent tariffs. That is virtually prohibitive. We still export a hell of a lot. Another one, where we now export 75 per cent and could triple that product, is facing 10 per cent. It is a high-technology product. A third one is very badly inhibited by all of the nontariff barriers stopping technical service people--it is a high-service industry--at the border. We will suffer in some

cases where a few of our businesses are not world-competitive. You take the swings with the roundabouts.

Mr. Ferraro: I will pick up on something you said. You said you do not understand this deal as well as perhaps you should.

Mr. Stewart: No, I did not say that; I said I do not understand it perfectly.

Mr. Ferraro: OK, fair enough. Let me just say, in defence of myself, I would perhaps be on your side promoting this deal to a greater degree if I had not been convinced--over the last two and three quarter years as a background, but also more recently, having had direct input from our side of the fence, if you will, our lawyers, our government officials--that the negative ramifications of this deal do not make it such a hot item, quite frankly. But I am on side with you as far as reducing tariffs and the philosophy of free trade.

Mrs. Caldwell: If I can just address that--and I do not mean to be facetious--governments, through the last X number of years, as long as there have been governments, have been passing on behalf of their publics bills which do not please all of the people all of the time. My position--and this is personally now--is that this is what we got. It has been negotiated. I would feel much happier with the Ontario government if it could offer some positive alternative, and certainly some support now, in view of what we have. Let us move forward with it now.

Mr. Walter: Just to add one other thing, the trade arrangement is a beginning. It seems to me it is just opening the door to see whether both sides really want to get a better agreement between ourselves, to see if we can both benefit. There are some commitments in terms of improving the dispute settlement mechanism. There are some commitments in terms of fallout of trade legislation that could impact on us. It seems to me this is a beginning of a direction that could be very positive for North America, such as a common market, which the Europeans have opted for. Sure, it is not perfect, but hopefully over time we will find out if the Americans and we feel that we do want to make further commitments to have the kind of trade agreement the proponents are envisaging.

Frankly, I think they have come a long way in terms of what they have been able to commit to in a relatively short period of time, with a lot of the negative lobbying against trade. It really, to my mind, is following the directions that the General Agreement on Tariffs and Trade has taken for many years. I guess that is all I would add to that.

Mr. Ferraro: I appreciate your comments. I just reiterate on behalf of myself and, I guess to some degree, the government that we would be on side if we were as convinced that this deal is as good for Canadians as you believe it to be. Unfortunately, we are not. We believe there are some serious negative ramifications there. I personally believe we have given up a hell of a lot in our energy sector, the auto pact--which is a direct contradiction to what you say--and so forth. Those disagreements are a matter of opinion. Let me just conclude by saying that I hope you are right and we are wrong.

Mr. Stewart: I have one final point, too. It should bear more weight, it would seem to me, with the Ontario government that the majority of the manufacturers in the province, the ones who have to face the music on this--of course, we all do as a society, but we are right in the front lines

of this--in balanced judgement, not seeing it all as black or all as white, are in favour of the agreement. I think that should bear more weight with your government than it does.

Mr. Ferraro: Let me end with this, because it is a very important and good point. Really, what you are saying is, "We're the manufacturers, Ontario government, what the hell are you talking about? We like it, so why are you against it?"

Mr. Stewart: I did not quite say that.

Mr. Ferraro: In very vulgar ways. Let me rephrase that. "Why are you not more supportive of it?"

The question really comes down to, politically--and the NDP will want to put politics in everything--what motive is there for the Premier to say, "I do not like the deal"? Where is the political gain? Let us look at it in the absolutely crassest terms. He is in there for four and a half years, so I am trying to think of what the political motivation would be for him to say, "I don't like this deal."

I suggest to you again that the decision we have taken, and again I hope we are wrong, is based on the best nonpartisan, if you will, legal advice we can get as to this deal. I wish it was more acceptable to the CMA, but in our hearts, quite frankly, as representatives, we believe our position, just as you believe yours, but I do not think there is any real hidden agenda there or anything like that.

I do not know if I am making any sense, but I think it is an important point that you make that has to be addressed.

Mr. Chairman: Mr. Thibault, did you have a comment on that?

Mr. Thibault: I just wanted to say that, of course, we have considered the very same potential difficulties that you have, I am sure. In looking at the arguments for and against, we--our committees and our board--have been pretty well convinced that there are satisfactory explanations and answers and elements of the agreement that answer the concerns we have.

You talk about a leap of faith. Just about every other country in the world has made what I think is in fact a relatively modest leap of faith. All the evidence of moving from situation A to situation B after the agreement is in place is that it is not a massive jump. It is nothing different, really, from what we have done for the last three or four decades. The rate of change in manufacturing now is enormous without an agreement, and it is not going to be any different for the next decade. What this does, though, is offer us the opportunity to really grow into a competitive manufacturing sector, whereas otherwise we are kind of locked in.

I guess we do have some difficulty understanding how your analysis of the agreement comes out so negative, quite frankly, because we find the arguments dealing with the potential objections quite convincing and that is the basis on which we support it.

Mr. Chairman: Just as a brief comment, I can think of some examples where American presidents of branch plants are very enthusiastic about this agreement and I am not getting the same feeling from some of the middle management. Have you investigated that at all?

Mr. Thibault: There is no question that this kind of change in the environment is a big challenge to our management teams, and I mean the whole management team, in our subsidiaries. In speaking to many of our members on that, I think what they are finding is that they recognize that and what they are saying to me privately is, "Look, if we don't find a different way to operate our subsidiaries, other than the traditional way of the true branch plant, we don't have much of a future anyway."

I think they recognize the change and the transition they have to make, and if they do not have the wherewithal now, either the right technology or the marketing or the full management skills to do what has to be done in the 1990s, they truly are not going to be around. The agreement offers them an opportunity to correct that.

I think most of them find in the end they are willing to take that challenge, because if they do not, they are going to be in difficulty anyway for other reasons. It is much more manageable to do that in a North American environment, where the cost structure is the same and the methods of doing business and so on are very similar, than it is to have to face it internationally in a different environment.

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Mr. Sterling: I guess I have come to the conclusion, in terms of listening to a number of people and representations from a lot of different groups, that I would view the route from the Second World War to 2000 in five steps as to a change in our borders around our country. I think at this stage probably three steps of the five are already done, probably the last two forced by the GATT negotiations, where tariffs have fallen in general and now average around four per cent, as I understand it, in Ontario when you mix in the whole thing. I see this really as the fourth of the five steps and the fifth step will probably be forced in the final analysis by GATT, along with maybe an agreement subsequent to this one.

I agree with the Canadian Manufacturers' Association in terms of saying that I do not see the big deal. I really believe the three political parties in this province are there for various reasons. I believe the government winning an election brought on this issue in terms of taking a very negative stance. It has talked itself into a corner and it cannot get out of that corner at this time.

They have really been caught by rhetoric in laying down six conditions which, if you held them to 100 per cent, would really strip the United States of sovereignty and would strip Canada of sovereignty, in terms of the dispute settlement mechanism that they demand or say they would like. I have asked them the question, "What would you put in place?" but they never answer that question. They never answer the question, "What kind of agreement would you like?"

I know your frustration in saying, "What do you want?" because they do not answer what they want. They just say nothing is good enough, but the world is going on and you have to go along with the world or you do not trade.

I do not know whether you are aware, Mr. Stewart, that I was a former employee of Du Pont of Canada in 1964 and 1965, in my former incarnation as an engineer before I returned to law school. I do not know whether you threw in the Whitby plant because I was there and developed all that innovative technology before I left or because I left.

In terms of technology, from my experience in that particular plant, Du Pont in Whitby was not controlled by anything that was going on in the United States or whatever, and we were at the leading edge of research and development in terms of producing tougher and clearer and glossier films in that plant. I see no reason why we cannot compete in different manufacturing plants.

I have one question I would like to ask you. As I understand it, the attitude towards the future for manufacturing in general is changing as to how the future plant is going to be. As I read, I understand that the success will not depend necessarily on long runs of one product of one kind but will be on the adaptability of the particular manufacturing facility to produce many different kinds of customized products in an efficient manner. Is that the opinion of the CMA in terms of the future viability of manufacturing, not only in Canada but in the United States?

Mr. Stewart: First, I am pleased to hear you were at Whitby. That plant has gone on to probably 10 times the capacity with the preponderance of its product being exported around the world.

Mr. Chairman: Since Mr. Sterling left.

Mr. Stewart: We will give him credit for laying the base, although it originally came from our research centre in Kingston.

No one is going to compete on the world scene, in our kind of business anyway, without a high level of technological intensity, and that means in every aspect of it, from process control to factory automation, to information acquisition, to the best technology from wherever you can get it, to flexible manufacturing made possible by computers and factory automation.

One of the changes in our company since you were there is that we have seen declining tariffs over the last 15 years and we have made no investments that did not move us towards a totally world-competitive status. Ontario manufacturing has to do that if it is going to deliver the future jobs for our people, jobs that are sophisticated.

I have to say we are also getting a fair amount of help from the Ontario government. One of the real centres of excellence, I think not recognized in the Globe and Mail in its recent article, is the Peterborough Ontario Centre for Advanced Manufacturing--Robotics. It has helped us a great deal in factory automation. Without that, we are all dead.

Mr. Thibault: To answer the question, I do not think there is a single answer. What is true, though, regardless of whether you can sort of go into flexible manufacturing or long runs, is that you invariably need, as Mr. Stewart said, a lot of technology, which is very expensive, and a lot of capital, which is also very expensive. In order to justify that investment, you have to be able to see the potential for growth in the future that will make that investment viable.

Even if you have a very targeted kind of market--and increasingly it is going to unleash markets that are opportunities for Canadians--you have to see the potential for growth. The problem with Canada is that even with short runs, the potential for growth is not there if you consider only the Canadian market. That is why, strategically, access to the US market is so important.

Mr. Sterling: Does the CMA think the Ontario government should be

doing anything now in preparation with regard to implementing this agreement if there is displacement, for instance? Have you considered at all the displacement of workers, retraining and that kind of thing? Do you think the existing programs should be extended or are there new kinds of programs that we should be involved in at this juncture?

Mr. Thibault: Let me make a general comment and then perhaps my colleagues can comment. I think you, as legislators, should certainly now turn your minds to the transition period and examine, I would suggest, all of the government policies in Ontario that affect the performance of manufacturing with a view to making them supportive of manufacturing.

Let me give you one example. We have tried for many years now to get the Ontario Legislature to accept a bill that changes the regulatory environment for transportation. That consensus was reached with the trucking association years ago. We are still dragging that through the Legislature and we have not created a flexible transportation regulatory environment in Ontario that allows our manufacturers competitive costs to move goods in and out of our factories. That is the kind of thing that you can do to help us.

As far as training and so on, I think a lot is being done in Ontario to train and support. I think the centres of excellence are helping us on technology. There are a lot of basic policy thrusts that are very useful. Anything that helps to control the cost and contain the cost of doing business in Ontario is very helpful.

Mr. Walter: Whether the trade agreement is passed or not, certainly the General Agreement on Tariffs and Trade is going to come through. There is no question that manufacturing and Canadian business are going to be operating in an increasingly competitive environment, trade agreement or no trade agreement. That is a fact.

In fact, in our discussions, it seems to me that maybe the trade negotiation is not all that important if you look at all the other factors that are impacting on how business is done and how it is going to be done in the future. I suspect in the long run the technological impact on business and manufacturing is going to have a much greater play than these tariff negotiations that are going on now.

Maybe some lights are turning on from our discussion, but probably the manufacturing community is recognizing that change is here to stay and that tariffs are no longer the kind of protection they used to be seen to be, over 100 years ago, and they are an impediment to excellent, successful companies in terms of trying to achieve growth and better efficiencies. It seems to me that if we do not enhance trade arrangements, limited as the deal may be or as good as people may see it, it will balkanize trade and we are going to go back to the post First World War situation. That would be completely contrary to the way the world, or at least the western world, has been going since the Second World War.

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Being a member of CMA, I guess you are supposed to toe the party line, but quite frankly, looking at our own business, I just do not know what this impact is going to have on us. I know two things. One is there is no question it is going to be a threat. As this gets in place, our competitors south of the border are going to have much easier access to our customers. The other side of the coin is it is an opportunity. It is an opportunity for us to go

down there to see what we can do in whatever products we can export to them. The only thing I am convinced of is if we do not do something about the latter, we are just going to suffer from the former.

To my mind, the essence of the whole deal is going to hinge on individual companies' management and their perception of their capability to compete in broader markets. To my mind, that is going to be the hinge on whether the door of the future is going to open or close on most companies, because most companies have some exportable products and services. I think Canadians are going to have to dramatically change their culture in terms of business. We have not tended to go out and seek markets elsewhere and, as Mrs. Caldwell says, this is going to be a very severe kick in the rear end to make sure we go out and do it or else.

Mr. Chairman: Your company again, Mr. Walter, does what?

Mr. Walter: It is E. F. Walter Ltd. We fabricate and distribute various types of industrial felts, mechanical rubbers--mostly cellular products.

Mrs. Caldwell: Rick mentioned that he and I had debated on this point before and when we debated this--14 hours on the plane to Japan to an international small business congress in October--with the Ontario government. I had a captive audience. But one of the impacts that congress had on me as a businessperson was it hit me right between the eyes how parochial I had been in my own thinking. There were people there from 46 countries. They do not talk about marketing in their own country. It is a given that they market all over the world. Yet the Canadians who were there were talking about marketing to Manitoba and getting a little bigger market here. It had tremendous impact on me. I absolutely agree with Mr. Walter. I do not know where we are going to go either, but we had better work at it.

Mr. Pelissero: In terms of comparing your perception of what we got in the deal to the six points that Premier Peterson had laid out in terms of the deal being acceptable to the Liberal Party, I guess if you compare it to some of the points that Mr. Grossman made during the campaign in terms of a "me too" approach, we are not throwing the borders wide open--certainly, when he was confronted by some of the agricultural groups etc. More for the record, in terms of the safeguards for agriculture, when we compare the leaving in place of the supply-managed systems, to me supply management by its very nature is not meant to be an export entity. It is meant to satisfy domestic need. Under GATT, it is a recognized right of a country to meet its own requirements. So the chicken, the eggs, the turkey and the dairy industries are not really geared up for export; they are more geared up for the domestic demand.

Mr. Stewart, on page 4 of your submission, you talk about, "While we did not get all we wanted in this first agreement...." Would you care to expand on the first agreement. Do you see this as the first of one or two or three agreements? If so, what would your time frame be for either renegotiation of this particular deal or--what did you mean by that statement?

Mr. Stewart: I do not think we have had any sort of secret schedule that we could put forward for it. I guess the belief, however, is that trade is a dynamic and organic thing. It will be changed, improved and renegotiated in many of its areas as we find out what is good and bad about it and as the United States finds that out. There is no doubt there are an awful lot of uncertainties about what is going to happen. There was no deeper meaning in it than that.

Mr. Thibault: We have an explicit commitment, of course, to continue negotiating on the antidumping area, government procurement and other aspects as well.

Mr. Pelissero: One question that I have tended to ask most of the delegations is the value and the impact of the Canadian versus the American dollar. What kind of ramifications do you see with an 85-cent dollar?

Mr. Stewart: I do not personally see the dollar as being a terribly relevant consideration with respect to the free trade agreement specifically. We did not have free trade in 1976 and we faced a dollar above par, up to \$1.06. That was rather tough, but we survived. It seems to me that the tremendous capital flows around the world these days really dwarf the amount of dollars that flow in trade by several--I cannot quote the figures, but it is at least an order of magnitude, or much more than that.

I think that fiscal policies, and particularly interest rates and so on, are much more pertinent in determining the value of the dollar. If the dollar should rise, there certainly is a penalty to us, but we tend to think of that as being long term and for ever. It does not generally affect the long-term cost of capital unless it is driven up by a bad interest rate policy in the country and it does not affect the cost of many raw materials which are equilibrated on an international basis. It affects the cost of labour.

What we are doing is running with the lower-cost labour by having a lower dollar in Canada and giving ourselves a competitive advantage. So it does not affect all of the costs of production. I do not see it as a relevant thing to say. For example, if free trade is so good that it makes the Canadian economy so buoyant that it drives up the dollar, we can hardly quarrel with that, though we may try to control it through interest rates.

Mr. Pelissero: We heard from other delegations that an 80 or 82-cent dollar in their particular sectors in some cases would be devastating and would really shatter what had been gained through the agreement.

Mr. Stewart: I heard one of the previous delegations acquiesce to that suggestion. I guess that I would only say that maybe that is a knee-jerk reaction. Where were they 10 years ago? We did have a \$1.06 instead of an 80-cent dollar then.

Mr. Chairman: People often thought that was a good thing in those days.

Mr. Stewart: We did not know.

It was not a killer. It was just bad news.

Mr. Chairman: I know Mr. Mackenzie has a question, but it is supplementary to that. I am hearing a comment about this being a first step, a first agreement and so on. Where do you see our bargaining position improving in the future in talking, for instance, about defining subsidies after we have implemented an agreement? For instance, I get the feeling deep down that if we were to be renegotiating the auto pact in the 1980s, we would have serious difficulties because we have already rationalized that industry and we are completely dependent on American markets. Will we not be in that kind of position in five to seven years?

Mr. Stewart: It depends upon whether you make the assumption that we

got a bad deal, a good deal or a fair deal. It may be that the US will have points that it badly wishes to negotiate. I do not think we can really predict. To make the assumption that is implied in what you say would be to assume that we have a bad deal.

Mr. Chairman: Even if it is a win-win situation and it turns out to be a good deal for Canada, are we in a good bargaining position, being the little guy? Even if we have got good times, say, in 1992, are we in a good position to talk about turning our back on the United States?

Mr. Walter: With the frame of mind that the American government is in now, that Congress is in now, in terms of trade, are we not at least in a bargaining position, whereas if the omnibus bill is passed, it is going to change the ball game very significantly? It seems to me that we do have a bargaining position outside of the General Agreement on Tariffs and Trade, directly with the United States, negotiating to try to respond to each other's interests and, sure, to get some oneupmanship. What seems to be lost sight of is that the Americans talk about our subsidies, but we have not said a great deal about theirs. Any negotiations on subsidies are going to have to include them. It seems to me that maybe we are on a more equal footing in terms of negotiations or bargaining with the United States in this kind of bilateral agreement than we would be if we were left to try to negotiate within the GATT round.

1700

Mr. Thibault: To answer the question Mr. Ferraro posed earlier about whether this is a good time to negotiate--and it relates to your question perhaps to some extent--I think there is a confluence of forces here that is quite remarkable and it is not going to come around for another generation. The major exchange rates vis-à-vis offshore competitors such as the yen and the deutsche mark have moved in favour of North America and are stimulating growth. At the same time, we have an opportunity to add to that potential for us, a trade agreement which gives us preferential access to the biggest, most dynamic market in the world. The confluence of those forces at this time, with the political forces on both sides of the border favouring the agreement, is to my mind quite unusual.

If we blow this one, I think we are going to pay a very heavy economic price, because if we do get into a recession, as we likely will next year, and we see another round of pressures to protect and so on in Congress, it is going to be a long time before we can talk to them about free trade again. I think the opportunity is this year and it has to happen; otherwise, we can kiss it goodbye for a generation.

Mr. Mackenzie: I was intrigued by your comment on the Canadian dollar not being a factor in this free trade deal because, and my colleagues can correct me if I am wrong, I think you are the only one who has made that argument. All the other business, financial and trade groups have made the argument that a rise or drop in the dollar would have a substantial bearing on it, not only the groups which have appeared before us, I think without exception, but the ministry people as well, who predicated their whole study on what would happen to the Canadian dollar. I am just intrigued that you do not consider it a factor. As I say, I think you are the only group of presenters that has made that comment.

Mr. Stewart: Let me make sure we understand each other. I did not say the value of the dollar would not affect Canadian business or trade

between the countries. I said to associate the change in the Canadian dollar with the free trade deal--to my view, I do not see the validity of it.

Mr. Mackenzie: I may have taken it a little wrong. What you are saying is that it could have a decided effect on--

Mr. Stewart: Not because of free trade. It could happen with or without it, as it has in the past. In the past 10 years, we have seen the dollar go from \$1.06 down to--what was the lowest it reached?

Mr. Thibault: Down to 72 cents at one point.

Mr. Stewart: It was down to about 70 cents. That was at a time when tariffs were sort of digging down steadily, but I do not think the tariffs caused the dollar to go in that direction, nor do I have any real evidence that removing the last part of the tariff is going to cause it to go in either direction. I think the other forces that cause a change in the dollar are much more powerful and much more likely to affect it. That is not to say that if the dollar should suddenly or continuously rise, it is not going to be bad for all of us; no question about that. I do not think I would find that the other trade associations would argue with that general point of view, nor do I think many economists would either.

Mr. Mackenzie: They certainly argued that it was more likely to see a strengthening of the dollar with the trade deal.

Mr. Stewart: Because it is such a good deal or for what reason? It would only be if it created more prosperity, presumably, if you follow that argument, which I do not, but if you did.

Mr. Haggerty: It is the trade deficit in the United States, worldwide; that is why the dollar will go down. They may be able to compete here in Canada, but they cannot compete in other places throughout the world. That is why it has been dropping.

Mr. Stewart: We are talking about, I thought, the Canadian dollar versus the US dollar.

Mr. Haggerty: It does. If it goes up here, it means the American dollar is going down.

Mr. Walter: Not necessarily.

Mr. Haggerty: Sure it does. That is what is happening now.

Mr. Thibault: There is a very important point I think we need to understand. The trade agreement is talking about the permanent institutional structure between two countries. That is a structural argument. You sort of change the rules of the game permanently. The dollar is a floating mechanism that adjusts and it goes where it goes for very fundamental economic reasons. If we do manage to improve our productivity and our competitiveness, the dollar should go up.

The Germans have a very strong currency--they always have--because they are highly competitive in export markets. That is fine. That does not cause them a problem.

It is very important to understand that one is not directly tied to the

other, as Jim was trying to explain. I think it is very important to understand that. You should not judge the agreement on where you think the exchange rate is going to go, to put it another way.

Mr. Mackenzie: You would have difficulty then with the presentation we had from the finance people before us, that the success--I think they used a figure of 120,000 jobs, maybe two per cent or whatever the percentage gain--was based on their prediction that the Canadian dollar would fall 3.5 cents over the next five years.

Mr. Thibault: Then they are not analysing the impact of the agreement; they are analysing the impact of the dollar.

Mr. Mackenzie: I will state my case again, Mr. Chairman, that maybe we can have the financial people back. Has anybody agreed with them yet?

Mr. Chairman: I am listening. This started, I think, when I was away last week.

Mr. Sterling: I agree too. I think you can come in here and make a number of statements about what is going to happen in the future and nobody around here or anywhere knows what the Canadian dollar versus the American dollar is going to be three or four years from now. I hope it will be higher, because we would be more productive and the world would recognize that. If that is the case, then we can compete with the United States because we will be more productive in relation to it, regardless of whether we have a higher or a lower dollar.

You have to work with some assumptions, and the assumption is that we have, what, a 78-cent dollar now? That is what you take the deal at, as far as I am concerned.

Mr. Chairman: Any further questions? Thank you very much. Obviously, it has been a good dialogue both ways. From our standpoint, we absorbed a great deal and learned a lot. We appreciate your input. We will stay in touch, I hope. Thank you.

Tomorrow we will be meeting at 10 a.m. in this room. The 4 p.m. presentation from the Institute of Chartered Accountants of Ontario has been cancelled at its request. They will come later.

Clerk of the Committee: They have not made up their minds.

Mr. Chairman: They did not give us a very specific reason. The other presentations are all on as scheduled.

The committee adjourned at 5:10 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

WEDNESDAY, FEBRUARY 3, 1988

Morning Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)
Haggerty, Ray (Niagara South L)
Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Neumann, David E. (Brantford L)
Nixon, J. Bradford (York Mills L)
Pelissero, Harry E. (Lincoln L)
Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Daigeler, Hans (Nepean L) for Mr. Neumann
Dietsch, Michael M. (St. Catharines-Brock L) for Mr. J. B. Nixon

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Consumer and Commercial Relations:

Gibbons, Valerie A., Deputy Minister
Feinberg, Dr. Joyce S., Director, Policy and Planning Branch

From the Coalition Against Free Trade:

Hogarth-Griffiths, Meg, Member, Alliance of Canadian Cinema, Television and
Radio Artists
Howlett, Dennis, Member, GATT-Fly
Sinclair, Scott, Co-ordinator

LEGISLATIVE ASSEMBLY OF ONTARIO -

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday, February 3, 1988

The committee met at 10:08 a.m. in room 228.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: We can get started now. This is an area of concern--that is, the area dealing with the Ministry of Consumer and Commercial Relations--which your chair thinks is perhaps one of the most significant in so far as impact on the provincial sphere of activity is concerned. In particular, consumer protection laws could well be inundated much more than many of us realize and certainly should not be, without at least having some right of extradition.

In any event, I am going to turn this over now to Valerie Gibbons, the Deputy Minister of Consumer and Commercial Relations, and Joyce Feinberg, the director of policy and planning. If you would like to make a short statement to start, that might generate some questions.

MINISTRY OF CONSUMER AND COMMERCIAL RELATIONS

Ms. Gibbons: First of all, let me thank you for the opportunity to be here. As you suggested, I would like to make some brief remarks. We will leave lots of room at the end to answer whatever questions the committee has.

Back in August 1986, my assistant deputy minister, Bernie Webber, made a very comprehensive presentation on my behalf to the select committee on economic affairs.

In the material he presented at that time, Mr. Webber gave an overview of the ministry and, specifically, those areas of a free trade agreement that had the potential to adversely affect a number of our policies and regulations. Since that information is already on record, it will not be my intention to review it today.

As you know, since that presentation was made, the Prime Minister of Canada and the President of the United States signed an agreement. That occurred on January 2, 1988.

Information that I will present to you today will bring the members up to date on how that agreement relates specifically to the Ministry of Consumer and Commercial Relations and the reasons for our serious reservations about its implications. I will begin with the alcohol beverage and related industries, then move to the potential impact on this ministry's consumer protection legislation.

The January 2, 1988, agreement prescribes changes to existing provincial listing, pricing and distribution practices. I would like to spend just a moment on each of these areas. They are covered, for your information, in sections 802 to 807 of the agreement and I am going to hit only the highlights because I think some of the questions will uncover the depth that you might be looking for.

Let me first deal with the listings.

Article 802 of the legal text specifies that listing practices must first of all be based on national treatment and be nondiscriminatory. They must be based on normal commercial considerations and not create disguised barriers to trade. They must provide unsuccessful listing applicants with reasons for the refusal as well as the opportunity for appeal from listing decisions to a body which will provide prompt, fair and objective rulings. Automatic listings, as of October 4, 1987, for British Columbia estate wineries producing less than 30,000 gallons annually will continue.

Turning now to article 803 of the legal text which deals with pricing practices, a distributor that is a public entity may charge audited cost of the service differential between imported and domestic wines and distilled spirits.

With respect to differentials in wine markup, these will be permitted until January 1, 1995, provided that 25 per cent of the markup differential is eliminated on each of January 1, 1989, and January 1, 1990, and 10 per cent of the differential is eliminated in each of the five succeeding years. Discriminatory markups on distilled spirits are to be eliminated on January 1, 1989. Finally, all remaining discriminatory measures are to be eliminated on January 1, 1989, when the agreement comes into force.

Our sense of that particular section is that they are referring to the arrangements we have with our licensees that provide for a different discount for imported and domestic products.

With respect to the distribution practices, article 804 of the text specifies that national treatment for distribution of each country's product is required. If distribution measures conform to national treatment, on-premise sale of goods produced on the site of a winery or distillery will be allowed. It also provides for the grandfathering of private wine store outlets in existence as of October 4, 1987, in both Ontario and in British Columbia. For its part, Quebec can continue to require that wine sold through grocery stores be bottled in that province.

In addition, articles 805 through 807 specify that federal blending requirements for imported spirits be eliminated, bourbon whiskey and Canadian whiskey be recognized as distinct products, and, finally, both parties' rights and obligations under the General Agreement on Tariffs and Trade are maintained.

We believe that this agreement will undoubtedly have serious implications for Ontario's beverage alcohol and related industries.

It is expected that production of wine from Ontario grapes could decline by 20 per cent to 45 per cent and grape land acreage utilization could be reduced by about 30 per cent to 40 per cent. As a result, we are looking at a substantial loss, not only in employment but also in revenue. The grape growers of Ontario estimate the annual cost to their industry to be about \$15 million, which is roughly half the value of Ontario's grape crop in 1986.

We believe that the agreement has serious long-term implications for our wine and grape industries. They are clearly the most vulnerable and are expected to suffer a significant loss in market share and would need to undertake significant rationalization if the agreement is implemented.

As well, the impact of the agreement would be felt by the grape growers prior to the scheduled January 1, 1989, implementation date, as wineries would no doubt begin to reduce their purchases, starting with this year's grape crop.

With regard to our provincial wineries, the markup differential between Ontario and US wines would be reduced by 50 per cent within the first 366 days, thereby reducing the price competitiveness of Ontario wineries. It is also expected that wineries would likely switch from making wine to bottling bulk wines from California. It is estimated that this may result in direct winery employment losses of 15 per cent to 25 per cent, approximately 100 to 200 jobs, and indirect job losses of 240 to 480.

Moreover, the opening of any new winery retail stores would require the provision of total market access for US winery retail stores. To that end, if we choose to keep out American winery stores, then new and existing Ontario wineries will also lose the opportunity to open additional stores.

With respect to distilled spirits, although the agreement is expected to have only a marginally negative impact on Ontario's distilled spirit industry, it will be significantly felt in the area of brandies. The industry feels that the sale of brandy made from Ontario grapes would drop dramatically due to the proposed elimination of the existing markup differential. The industry estimates potential losses at \$4 million to \$6 million on current inventory, as well as a significant negative impact on future earnings potential.

Finally, the grandfathering of existing sales and distribution practices relating to beer would reduce any flexibility needed to effect changes to the existing beer distribution system.

In summary, the ministry has many concerns with the free trade agreement.

First and foremost, the agreement applies to the internal sale and distribution of wine and spirits, and these are clearly a matter of provincial jurisdiction. Not only does the agreement include a number of provisions that intrude on provincial jurisdiction, it also prescribes administrative procedures for provincial entities.

The agreement is discriminatory in that automatic listing measures for estate wineries producing less than 30,000 gallons were granted to British Columbia. No such provision is allowed for Ontario's estate wineries. Similarly, Ontario would not be able to avail itself of the provision allowing distribution of Ontario-bottled wine through grocery stores, as is currently allowed for Quebec.

The agreement would severely limit Ontario's flexibility to expand its wine and grape industry operations. Indeed, the grandfathering of the winery retail stores in existence on October 4, 1987, would limit our flexibility to assist the industry by increasing marketing advantages at winery retail stores in the future.

Our ministry has worked closely with the wine and grape industries and has secured an agreement that will allow them the necessary transitional opportunities to successfully adapt to a more competitive trading environment. Our agreement is based on a longer transition period and a more gradual removal of differentials in marketing practices than those proposed under the free trade agreement. The wine and grape industries have stated that the front-end-loaded, seven-year phasing out of the markups does not provide an adequate period to adjust.

Finally, the free trade agreement does not provide the secure access to the US market that we in Ontario require. Indeed, losses resulting from the agreement are not expected to be compensated by increased export opportunities for Ontario beverage alcohol producers. At the same time, the removal of discriminatory markups, pricing and listing practices in the US is not expected to provide significant benefit to the Ontario distilling and wine industries.

The agreement places Ontario in a vulnerable position. Under this agreement, the US will still have recourse to remedies under existing US trade law. The free trade agreement does not allow Ontario's spirits and brewing industries to avoid the threat of retaliatory trade actions from the Americans now or in the future. In fact, trade remedies can be made more onerous over the next year and grandfathered on January 1, 1989.

That deals with the portion of the presentation relating to alcohol beverage industries. I would like to turn briefly to the services sector, as it relates to the ministry.

1020

The ministry's regulatory responsibilities affect a wide range of businesses in Ontario, the majority of which are in the services sector. As a regulator of businesses, we gain an awareness and an understanding of issues and developments in the commercial community which are of direct benefit to our ability to promote consumer protection. However, under the terms and conditions of the free trade agreement, the province's ability to develop consumer protection legislation could be restricted. Differential consumer protection measures that Ontario deems as appropriate may be regarded as arbitrary or unjustifiable discrimination by the United States and be subject to challenge and remedial action. The federal government can, of course, appeal on behalf of Ontario, but the onus will be on us to establish that the practice is justifiable discrimination.

This issue is of particular concern to us at this time because, as I am sure you are aware, the ministry has undertaken a major overhaul of the consumer protection legislation. There are 22 acts currently being reviewed, and it is expected that the existing legislation will be repealed and new legislation introduced. The free trade agreement demands conformity from any new legislation. Any action we take to protect consumers as a result of this review may be perceived as unfairly discriminatory by Americans.

There are instances where our existing legislation discriminates between Ontario residents and others for the purposes of achieving effective consumer protection. For example, our legislation provides for discriminatory treatment in terms of residency requirements, commercial presence requirements, differential business practices, foreign ownership limits and licensing. It is anticipated that many of these requirements will be continued in the new legislation. Our ability to do so, however, could be called into question by provisions of the free trade agreement.

Consumers are not likely to discriminate between domestic and American service providers. They will continue to demand the same high standards of consumer protection. Yet the Ontario government's ability to ensure a standard level of consumer protection may be more difficult. In fact, it may be that the level of consumer protection may decline in Ontario under the free trade agreement.

I trust I have covered the reasons for the ministry's reservations about the implications of free trade and I would be pleased to respond now to any questions you may have.

Mr. Chairman: Would it be possible initially to get a copy of your statement for distribution?

Ms. Gibbons: I did not bring any with me, but yes. Would you like to have 15 or 20?

Mr. Chairman: Yes, if possible.

Mr. McCague: Do we still have brandy?

Ms. Gibbons: We do indeed.

Mr. McCague: A whole lot?

Ms. Gibbons: We have a significant amount on the shelves. They have--I think Dr. Feinberg will help me with the figure--12 per cent of the brandy market. They have inventories, they say, of \$4 million to \$6 million.

Mr. McCague: Is that still the old brandy that we made once or is that all gone?

Ms. Gibbons: No, this is the same old brandy.

Mr. McCague: It is getting older all the time.

Ms. Gibbons: What is not sold is ageing.

Mr. Mackenzie: It is excellent for cooking.

Mr. McCague: Is it?

Interjection.

Mr. McCague: That is not what I recall your saying in the House once.

Supposing the free trade deal proceeds, and supposing somebody from France wants to sell his product to Ontario, what happens?

Ms. Gibbons: What will happen under the agreement?

Mr. McCague: Yes.

Ms. Gibbons: The free trade agreement deals just with the Americans and the Canadians, but the expectation would be that we would put in place a listings procedure that would apply equally to the American and the Ontario wineries. At the moment, the practice in place sets up different standards, different timing cycles, different sorts of criteria for the Ontario wines than for the offshore wines, the implication being that our wines would then compete head on with the American wines.

Mr. McCague: So you would not see any difference in the present procedure for French wines or Scotch or whatever but you would see it just with the Americans, who probably would not be happy with our present system or the strict limits that are on our present system.

Ms. Gibbons: Clearly, the fact that the application of national treatment to a listings policy is in the agreement is an indication that the Americans are not very happy with the process we currently have in place. I think the Europeans have indicated a similar displeasure with the practice, but the current practice in the province is to apply two different processes to offshore and onshore wines.

Mr. McCague: You mentioned reduction in revenue. Can you explain a little how your revenues will be reduced?

Ms. Gibbons: The reduction in revenue I referred to in the text was the reduction in the grape industry in terms of its revenues, the \$15-million figure. The reduction in revenues to the provincial coffers, of course, would be dependent on the extent to which one either raises the prices of Ontario or lowers the prices of American wines. If you lower the prices of the American product, there is a loss to the Treasury. If you raise the prices of the Ontario product, there is not a loss to the Treasury. If you do a little bit of both, you could probably make the whole exercise revenue neutral.

Mr. McCague: But you are probably concerned that you may not be able to increase and decrease as you choose without the Americans taking some action. Would that be right or not?

Ms. Gibbons: No, I do not think that is right, Mr. McCague. From the way the agreement is set up at the moment, the expectation would be that we would have to reduce the differential in the first year by 25 per cent and on the first day of the second year by 25 per cent. We can reduce that differential either by lowering the American or raising the Canadian prices. Does that answer your question?

Mr. McCague: I guess I was thinking about the taxing policy. I guess what you are saying is that as long it is fair treatment of both, there is no objection coming from the United States on something like that.

Ms. Gibbons: As long as the differential is reduced.

Mr. McCague: Right.

Ms. Gibbons: That is the spirit of the agreement. I am sure they would prefer to have their product reduced in price and ours increased in price, though.

Mr. Pelissero: You answered one of my questions with respect to whether it would be a markup or a markdown. I do not think that decision has been made yet. Certainly, if it were to be a markup of Ontario product, I would put in a pitch for the grape farmer to see some of that additional tax revenue that would be generated because of the Ontario markup somehow, directly or indirectly, through whatever system, flowing back to the primary producer, the grape grower, but that is a subject for another day.

Mr. Chairman: Or countervail proceedings.

Mr. Pelissero: Or a countervail proceeding. I guess it still remains to be seen whether that would happen anyway with that.

We heard yesterday, I think it was, from the automobile parts manufacturing association. They basically said they would be more favourable

towards this deal if they were able to increase the percentage from 50 to 60 per cent. There seems to be an indication that there is a strong desire on both sides of the border, from the auto parts manufacturing perspective, to go that route.

I guess I would offer, more by way of advice than anything else, that if there is even serious consideration to do that, we put in a pitch through whatever means--through your ministry--to have the transition period for the markup period stretched to at least an equal amount of the protection offered in other sectors in terms of a 10-year versus the seven-year and a longer transition period, rather than the markups having to reflect the 50 per cent within the first two years.

We have heard over and over again that the agreement for a shorter and quicker transition period was brought about really by the federal negotiators reneging or giving up something in terms of a perceived bargaining chip to get whatever in the other areas. So I offer it more as advice that if the auto makers are going to go in and say, "We got mutual agreement to go to 60 per cent," then I would think we, as a government, would want to make a strong case to talk about a longer and a more phased-in transition period for the wine industry as well.

Ms. Gibbons: To comment on that, Mr. Pelissero, I think the Premier (Mr. Peterson) has announced, and I mentioned in my remarks, that we worked out with the grape and wine industry a 12-year transition period that deals in one of its elements with the more balanced phasing out of the market differentials and applies that phasing out to different categories of wine and relates it to grape content.

1030

It is the intent, as I understand it, of the government to proceed with the implementation of that plan. To that end, we are working with the industries to define the steps and to take the action necessary to phase out grape lands that will not be used, to convert the grapes into higher grape quality so that they can then be bottled and sold and we can work on the image of the Ontario wine industry.

Mr. Pelissero: I think that ties to the next area I wanted to touch on, the General Agreement on Tariffs and Trade discussions. That particular proposal, I believe, was the one that we as a government submitted to the federal government as part of discussions last week. Is it your understanding that regardless of the outcome of the free trade agreement, being very specific with the wine industry, that is our battle plan, both dealing with European wine and American wine?

Ms. Gibbons: Yes. I think the Premier has been reasonably clear on that. We have what we believe to be a defensible and reasonable strategy to bring the industry into a competitive position vis-à-vis all offshore markets, and we are in the process of trying to implement that at the moment. My vision is that at the end of it, we will have a very competitive, high-quality Ontario wine that people will bring to their friends for dinner.

Mr. Pelissero: Before a question, I have a comment in terms of maybe setting up or looking at setting up some kind of interministerial task force that would involve not only, say, the ministries but the producers and the wineries to develop, in some cases, what we could call the Napa Valley of the

north, where the wine industry is a sector of it, but certainly a tourist attraction in terms of winery tours, etc., which I would think would be a means to achieve that.

In closing, is there anything in terms of the next step with respect to the GATT process? I guess it caught everybody by surprise that it was suddenly ended. What is the next step from here?

Ms. Gibbons: I have two responses. First, promotion is a very big piece of the whole quality, price and image strategy we have with the industry. Yes, I agree. We need to work with the other ministries to ensure we have an integrated approach to highlighting the good quality of our Ontario wines.

With respect to the GATT, the position we are at at the moment is that we offered the Europeans, through the federal government, what we felt was a defensible, reasonable position of transition for our wine industries and various other agreements on spirits and beer.

The European Community's position about what it wanted from Canada was significantly different from our requirements. They were not disposed to close the gap. We had offered the opportunity to begin discussions again in three weeks to see whether we could reach a negotiated settlement. They were prepared to do that only if we made some compromises. The compromises were beyond what the federal government and the provinces felt were reasonable. On that note, the talks broke off and the panel finding was circulated. We anticipate that we will go to a GATT council meeting sometime at the end of March.

The next steps in what happens there are very much up to the federal government, and in my talks with them yesterday, their strategy is not yet firm. I suppose they could do, and this would be pure speculation, one of at least three things, if not many more things. They could fight the whole panel finding on grounds legal and otherwise; they could say they have taken reasonable measures with the EC in presenting our strategy to try to reach a negotiated settlement; or they could say, as the panel finding suggests, that they will be back in December 1988 to tell them what they are going to do.

In any case, it appears to me that the European Community may get less than what was being offered at the moment, but I think they understood that at the time and that was a risk they took.

Mr. Pelissero: Just a quick supplementary. Has there been any thought given to us as a provincial government or the federal government encouraging the wineries, recognizing that grape producers really do not have a very strong case, to launch an action against European wines? Is there any discussion or encouragement for the wineries to do that because it has to be a like-for-like product? Has that route been thought of?

Ms. Gibbons: Joyce can help me if I misrepresent the industries, but the industries have, to my knowledge, put together a very extensive brief on subsidy practices that occur in the wine industry in Europe and they are positioning themselves with the federal government to gain some support to go forward with that under one of the sections of the GATT.

Mr. Chairman: Mr. Pelissero, there is the report, if that is of any help.

Mr. Mackenzie: I would like to know if the ministry position is one that I almost sense is coming from my colleague Mr. Pelissero, that the battle now is the transition period and what we can do to make it acceptable. In other words, is the free trade agreement accepted by the ministry, or is it something that we are still fighting? I think that is essentially what I am concerned with. I wonder, given the serious implications that you raise and the size of the potential loss, particularly in the wine industry, whether, other than maybe a specialized cottage industry, we really are going to have a viable wine industry with this agreement.

Ms. Gibbons: Clearly, it is my feeling that this agreement does not provide us with the opportunity to have a viable industry that can own 42 per cent to 45 per cent to 50 per cent of the market, as it does at the moment. The agreement, if it were to be implemented in its current configuration, would almost certainly diminish the grape lands. It would move the wineries into the production of wine from offshore grapes, and you would have a very small top end of the market wine from Ontario grapes.

The strategy the province is working on is the one I have been trying to outline, the 12-year strategy, the conversion of the grape lands to a different kind of grape, the production of a higher quality wine. In fact, we want to compete very significantly in that area with wines like Mommessin, Piat d'Or and those that are generally referred to as--we call them "plunk," which is not a very attractive thing to call them. But the wines that we make, table wines in that area, are as good as the ones produced offshore. So we would look to maintaining a more significant industry than free trade would allow us to do.

Mr. Mackenzie: Also, it seems to me that there has to be the question of survival and viability in an industry that is getting smaller and not larger, unless there are some rabbits to be pulled out of a hat as well.

Ms. Gibbons: I am sorry?

Mr. Mackenzie: There is a real question as to the survivability and viability of an industry that is going to be substantially smaller and faced with the threat of the free trade agreement, whether it can even be turned into a viable industry at all.

Ms. Gibbons: The strategy that the ministry has launched with both industries at the moment calls for a reduction in grape lands and, in addition to that, a conversion of the existing crop. We all have a long way to go in terms of improving our productivity if we are going to be competitive in that market.

Mr. Mackenzie: This also would give us problems in the future if something happened to this agreement once we have gone through this process for four or five years, the conversion of grape lands and so on. We would not be in a position where, with increasing quality some time in the future, we really could have a top-notch industry. In other words, we have removed a future option pretty effectively.

Ms. Gibbons: You mean if we pull out some grapes now?

Mr. Mackenzie: Yes, and the conversion of the land, which has to go with it. Nobody is going to leave the land idle.

Ms. Gibbons: Yes. My sense is, however, the grape acreage that we are reducing relates to a surplus capacity in the peninsula. In fact, even if one speculates down the road that the industry will gain 55 per cent of the market, which is a fairly broad goal, the acreage that we have under production, with the 8,000 reduction, will be sufficient to support that.

1040

Mr. Mackenzie: I always have some reservations when I take a look at the canning plants and the tender fruit industry in the peninsula and what has happened to it over the last few years. I think it has probably reached the stage where it is not viable any more as it stands, and that was not the case, according to some of my friends who are in the business themselves.

The other thing is in the service sector. Just how seriously do you take the threat to licensing, ownership, standards and so on? It seems to me that is another area where, with the implementation of this particular agreement, we cannot effectively, at least until we know all the ground rules, establish standards, whether it is safety, licensing or what have you. I have some grave reservations in saying that we cannot set these kinds of standards for Canada unless we set them to meet the American agreement because, I do not care who you are talking to, when you are in negotiations on these matters, 25 million just are not going to counter 200 million.

Ms. Gibbons: We have those concerns, as I said earlier. It is in fact one of the greyest of areas. The clarity that is in the wine and spirit section is not in this section. The implication is that we will be allowed to apply different standards for consumer protection to Ontario and the Americans, but if we try to do so, we will need to justify that and, technically, that puts beyond this province the right of developing public policy for consumer protection. That is a very big risk.

Mr. Mackenzie: Inasmuch as the US has not given up the right to countervail, it also means that almost anything would be open, as I see it. To me, the leap of faith is really buying the proverbial pig in a poke in this situation. I am not sure why we would even consider it. I guess that is why my first question is still my fundamental question: Has the ministry itself accepted the inevitability of this deal or are we still really trying to find ways and means to stop it?

Ms. Gibbons: We are working strenuously with the industries to implement a strategy that is different from the elements of the free trade agreement, whatever that says.

Mr. Mackenzie: I wish I had a little more confidence in some of my colleagues. I just heard Mr. Pelissero today almost join with Mr. Ferraro in his acceptance of the inevitable.

Mr. Pelissero: No, I did not say that.

Mr. Mackenzie: It sure sounded like it.

Mr. Chairman: It is all a matter of interpretation. Just a very quick reply, Mr. Pelissero.

Mr. Pelissero: I think a very important point on that is that the the Premier has said all along that we would not implement the elements of the

deal with respect to the provincial markup of wines. We have also said all along that we are willing to play in the multilateral GATT field, and as a result of a finding, we are in the process of negotiating and doing that.

I think there is a big difference in terms of where the Ministry of Consumer and Commercial Relations is coming from as opposed to saying we are going to accept the seven-year, 50 per cent cut in the first two years as opposed to a 12-year, longer transition, longer phase-in period. I think that is important, that there is a very clear distinction between accepting the elements of this deal and working with the GATT in terms of our provincial and federal obligations.

Mr. Mackenzie: Just before we leave that, can I ask a question? I had not caught it before and I guess I should have, but in effect what you are saying is that a 50 per cent reduction of the differential is really in the first year, never mind two years.

Ms. Gibbons: A year plus a day.

Mr. Mackenzie: One year and one day in the deal. So you might as well say 50 per cent in one year, which is an even more dramatic slam we are going to get right off the bat.

Ms. Gibbons: That is exact, a year plus a day. That is right.

Mr. Dietsch: Fifty per cent in 366 days is really what it amounts to. Subsequent to Mr. Pelissero's remarks, I think one of the key factors that the deputy brought out, too, is that there has been a tremendous amount of consultation with the industry, both through the grower and through the wine council. I feel that is an important, integral part of bringing the whole complex picture together.

As for Mr. Mackenzie's remarks about conceding now to the free trade arrangement, I can tell you that is not the case.

Mr. Mackenzie: I hope you are right. I am willing to lose a little money with some of the bets I have got with some people already.

Mr. Chairman: I am going to recognize Mr. Ferraro and then Mr. McCague.

Mr. Ferraro: Let me say, first, Mr. Chairman, although I do not have as much money as my Socialist friend Mr. Mackenzie, I will be happy to bet with him on the outcome of Ontario's position when we see some implementing legislation from the federal government.

We have a copy of the article, which you may have seen, vis-à-vis the federal government's negotiations with our wine and liquor problem. It says in here, essentially, that the General Agreement on Tariffs and Trade official said negotiations have not broken off and then our federal representative said it is a dead issue. Indeed, it goes on to say there was a request by the federal government for a further discussion on February 22, which is a little confusing.

My question is, to put it bluntly: Are you seeing some posturing here by the federal government from the standpoint of an ulterior motive in that it does not want to see the GATT negotiations be fruitful in light of the free trade deal, to be quite blunt, or is this the normal course of events of posturing on a negotiation with a GATT decision?

Ms. Gibbons: We worked very hard all week with the provinces and the federal government to move our negotiating position along. In that week, I had nothing that would indicate to me, as a bureaucrat, that there was a game afoot to subvert the GATT discussions to free trade. I left having the sense that Canada and the other provinces were firmly behind the position that was on the table. The negotiations, of course, had not completed. I suppose, in the to-ing and fro-ing of trying to reach a settlement, a further erosion of a position would be possible. To be fair, bureaucratically there was nothing that gave me any signals to say that our position was at severe risk.

Mr. McCague: In the area of consumer protection legislation, are your concerns based on the fact that there is nothing written about it or are they based on the fact that there is something written and it disturbs you?

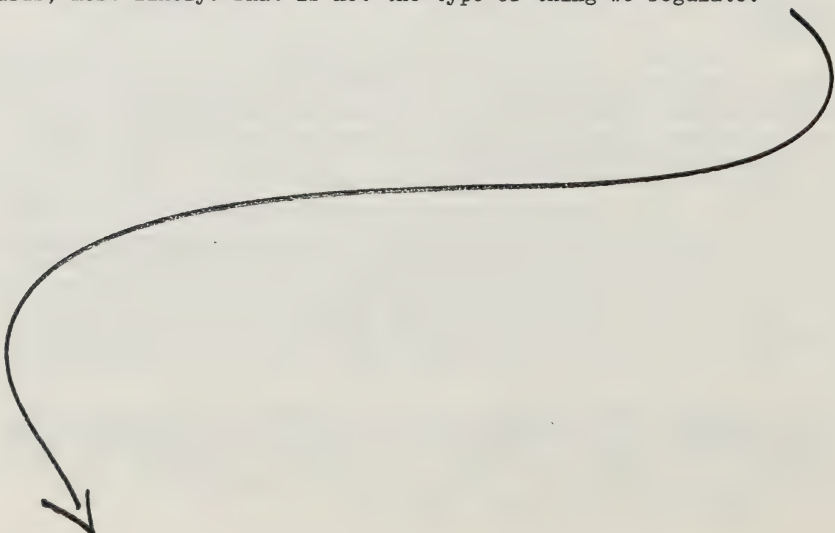
Ms. Gibbons: I think both. As I read the agreement, I understand there is the provision to allow Ontario to continue to enact consumer protection legislation. Where and if we feel it necessary to apply a more constraining set of circumstances to an American firm or product, we then have an obligation to give advance notice to the Americans and, if they object, then we need to justify that. That has the opportunity, as I see it, of being overturned. If they say, "We just do not agree with you that you need to have a commercial presence to undertake that service," then, if this tribunal decides, yes, the Americans are right and we are wrong, we have effectively lost our capacity to set that public policy. As a provincial bureaucrat who is faced every day with a consumer saying, "I do not feel well enough protected," I find that to be a nightmare.

1050

Mr. McCague: I should know the answer to this question but I do not. We refer to various standards. The laws that would govern the Campbell Soup Co., for instance, or whoever cans tomatoes--under what legislation do they operate? Do you know?

Ms. Gibbons: I presume federal health and safety.

Dr. Feinberg: It would be a combination of federal standards and provincial agricultural standards, but it would be federal food and drug standards, most likely. That is not the type of thing we regulate.



Mr. McCague: OK. Thank you.

Mr. Morin-Strom: Ms. Gibbons, you have not looked at the impact on the cost of consumer items, not to the extent that the federal government has. They have documents out like this one called Canada-US Free Trade Agreement and Canadian Consumers, An Assessment.

I assume that you have looked at their analyses, or at least the results of their analyses. I wonder if you have done any analyses and had a chance to look at whether their estimate of typical savings of, say, \$800 a year per household really is credible.

Ms. Gibbons: I have not had the opportunity myself to review this document, but Dr. Feinberg tells me the staff has undertaken a quick look at it. Perhaps I could ask her to respond to that.

Dr. Feinberg: We have not actually carried out economic analyses ourselves. Many of the analyses that the federal government and other organizations have used are based on complex computer models, and we have not been doing that.

We have looked at this study and at some of the other studies that have been done. It is true that if you put in certain assumptions, you get certain outcomes, but so much of it does depend on those assumptions. For example, they are apparently assuming in this study that the savings resulting from a lower tariff would be entirely passed on to the consumer. It is possible that importers could take some of that saving. It will not necessarily go on to the consumer.

Mr. Mackenzie: That is a safe bet.

Dr. Feinberg: They are assuming that domestic firms are going to be able and willing to reduce prices to the full amount of the tariff reduction. According to theoretical economics, that type of things happens; practically, it may or may not happen.

There are also assumptions built into the model on the exchange rate. Depending on the relationship with the Canadian or the American dollar, you may see some of these impacts; you may not.

It is very hard for us to say definitively that it will or it will not happen. The Consumers' Association of Canada economist Bob Kerton was quoted in the papers--we have not talked to him directly--as saying that from his examination of some of this material he felt that if there is a positive impact for consumers, it is going to be relatively slight. Relying on his judgement and his assessment of that, I would say from our examination of it as well that we cannot say for sure there will or there will not be a benefit. If there is a benefit, it is probably not going to be an extremely large one.

Mr. Morin-Strom: I was particularly concerned about this assumption, which is the major stated assumption in the study, that "the estimates incorporate the assumption that retailers will pass on to consumers the price reductions resulting from the elimination of tariffs under the agreement."

Ms. Gibbons: That has never been my experience.

Mr. Morin-Strom: Yes. It seems to me it is not quite so simple as that. If the American product was the price-setter, then it is possible that

the price reduction would come from what the American imported product is determining as its price in the Canadian market and the Canadian price would have to fall to match that. But I assume there would have to be implications in terms of cost-cutting and job losses or lost profit somewhere in the Canadian marketplace to be able to match that.

On the other hand, if the Canadian product is the price-setter, the Americans are more likely just to keep the price at whatever the competitive Canadian determined price is and take for themselves that tariff reduction as an additional profit for their operations in the US.

Do you have any idea of the impact or are you conducting any studies as to what the impact on price levels might be down the road here in Ontario?

Ms. Gibbons: I must say this has not been an active part of the evaluation that we have done. We have been looking more closely at the mechanisms of consumer protection that deal with the transaction between the commercial entity and the individual. That is not to say some time ought not to be spent doing that.

Mr. Chairman: I am wondering if that might not be being done by the Ministry of Industry, Trade and Technology. You are concerning yourselves more with the--

Ms. Gibbons: The mechanics of legal protection.

Mr. Chairman: --mechanics of consumer protection and inventorying the problems in consumer protection.

Mr. Morin-Strom: I suppose it might be within the Ministry of Treasury and Economics as well, in terms of its projections as to what cost-of-living increases are likely to be in future years, because that is where it would directly impact.

Ms. Gibbons: You make a good point.

Mr. McCague: I am not sure if I heard Mr. Mackenzie correctly but I thought he said that consumer protection legislation might be subject to countervail. Is that correct?

Mr. Mackenzie: I am not so sure of the legislation but the firm could see the results of it as a threat to its competitive position.

Mr. McCague: Could you just explain a little bit as to how that might happen?

Ms. Gibbons: I will take a shot at it. The law governing this agreement needs a better mind than mine to deal with it. But as I understand the process, if the Americans were to determine that the procedure we have in place--the differential procedure--to protect the consumer is viewed by them to be discriminatory, the panel upholds that view and if we fail to correct it, they would have the full force of their trade remedy law available to them to try to effect some shock in our system to change our behaviour. Dr. Feinberg, is that your understanding?

Dr. Feinberg: Yes, and they could also proceed to the dispute settlement mechanism and use that as a vehicle of attacking our practices.

Mr. Chairman: It would not likely be countervail but article 1602, national treatment, probably.

Mr. Mackenzie: I could see where it could be countervail.

Mr. McCague: It might be a good discipline. I am sure you do not have any legislation on the books that is irrelevant, but if you did have, they might help you get it off there.

Ms. Gibbons: You will be pleased to learn that this major exercise we are doing with the 22 pieces of consumer protection legislation is all in the interests of making them more responsive and relevant.

Mr. Chairman: Any other questions? Thank you very much for your presentation. It has been extremely helpful.

Ms. Gibbons: It is a pleasure.

Mr. Chairman: As I said at the beginning, it is an area that I think is perhaps one of the most precarious of all areas in so far as provincial jurisdiction infringement is concerned and it bears some considerable concern to this committee, especially in view of the comments that were made yesterday by the Attorney General (Mr. Scott) as well on the constitutional aspects. Thank you very much.

The next group to give a presentation is the Coalition Against Free Trade, which I see here. Representing the coalition are Meg Hogarth-Griffiths of the Alliance of Canadian Cinema, Television and Radio Artists; Dennis Howlett of GATT-fly; and Scott Sinclair, who is the co-ordinator of the coalition. A brief is being distributed to members of the committee right now.

Since we are just seeing this brief now, perhaps one of you could lead us through it and that may engender some questions.

Ms. Hogarth-Griffiths: In fact, two of us are going to lead you through it, if that is appropriate.

Mr. Chairman: Great.

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COALITION AGAINST FREE TRADE

Ms. Hogarth-Griffiths: I am Meg Hogarth-Griffiths. I am representing ACTRA on the coalition against free trade. ACTRA is the Alliance of Canadian Cinema, Television and Radio Artists. I am chair of the National Performers Guild of ACTRA.

On my right is Dennis Howlett, who is a staff of GATT-fly, an ecumenical coalition for economic justice. On my left is Scott Sinclair, the co-ordinator of the Coalition Against Free Trade.

The Coalition Against Free Trade is a broad-based coalition of organizations opposed to the Mulroney-Reagan free trade initiative. We have been active and in existence since November 1985 when initially we came together to produce the Against Free Trade Revue at Massey Hall in 1986. Since that time, we have been engaged in a wide variety of activities, educational, lobbying, cultural, media, etc.

As you will see from an appendix to the report--the current membership is attached to this report--the coalition is representative of a very broad base of organizations. Recently, we are pleased to welcome as well the Ontario Teachers' Federation as new participants in the coalition as well as reaching out to native peoples' organizations, environmental groups, peace groups, agricultural groups, immigrant and visible minorities.

Probably in your deliberations you have already heard from or will in the future be hearing from many of our member groups that are opposed to this agreement, and we do not wish to reiterate their positions. Instead, we would like to focus on this deal and how it will restrict policy options for provincial governments and the role that this government in Ontario can play in joining with other provincial governments across the country to stop the deal.

Both Prime Minister Mulroney and the Minister for International Trade, Pat Carney, have stated that 98 per cent of this agreement falls within federal jurisdiction. But there are certainly many more areas that impinge upon provincial jurisdiction than the federal government cares to admit. The proposed agreement affects many areas where the province enjoys shared or even exclusive jurisdiction: including not just wine and liquor regulations, but agriculture, energy, resource pricing and management, and, perhaps most extensively, services such as finance, insurance and real estate, transportation, mining services, health care management, forestry services, professional accreditation, and others. We understand that the provincial government is now doing an inventory of the provincial legislation, regulations and powers which will be affected by the proposed agreement and we ask that such a list be made public as soon as possible.

Article 103 of the agreement commits the federal government to "...ensure that all necessary measures are taken in order to give effect to its provisions, including their observance...by state, provincial and local governments." If the federal government were able to uphold the provisions of this agreement in areas of provincial jurisdiction against the wishes of the provincial governments concerned, this would amount to a major shift of constitutional authority and an invasion of provincial powers by the federal government. Such a shift would affect not only legislation currently on the books, but, as importantly, the ability of the provincial government to introduce new legislation responding to the changing needs and interests of the people of Ontario.

We urge that the Ontario government state clearly and unequivocally that it will not implement the Canada-US free trade agreement in areas of provincial jurisdiction and that it will continue in future to legislate and regulate in the public interest, regardless of the provisions of the proposed free trade agreement. Such a commitment would send a strong signal to both Ottawa and Washington. Ontario's refusal to implement or respect it would be a major setback for the agreement. As US Trade Representative Clayton Yeutter said on October 9 in Toronto, "Congress would not approve that arrangement until and unless the necessary provincial approbations are in place."

Mr. Howlett: The proposed agreement is not definitive; it is an open-ended agreement. It calls for, among other things, ongoing negotiations to discipline subsidies. A great many more provincial programs may have to be changed to comply with the results of the new round of negotiations for the development of a common system of antidumping and countervailing duty laws over the next five to seven years.

The key issue at stake will be what is and what is not an unfair subsidy. Many Canadian social programs, such as unemployment insurance, regional economic development programs, Canada pension plan and agricultural support programs, have been challenged under American trade law as unfair subsidies. For example, in the 1986 fresh Atlantic groundfish countervail, there were 51 federal and provincial programs that were judged to be illegal subsidies under US trade law.

It is known that during the last round of negotiations the Canadian side was prepared to place strict limits on many of the targeted programs, such as regional economic development or industrial assistance, in order to gain from the US acceptance of the generally available programs, such as unemployment and health insurance and certain types of more general regional development programs, but the US negotiators were not willing to accept this tradeoff. Since no definition of subsidies could be agreed on before the November 2 congressional deadline, the issue was simply rolled over into a new round, and because the US has been able to attain most of its key demands already, there is no reason to expect that its negotiating position will soften over the next few years. In fact, over the next five to seven years the Canadian economy will have become even more locked into the American and our bargaining clout will be even less than it has been, if that can be imagined.

The bilateral dispute resolution mechanism set up under the agreement can merely review whether final administrative decisions in antidumping and countervailing cases were appropriate under the national law of the country in which the case is heard. Therefore, as negotiations on rules for countervailing and antidumping rules proceed, Canadian representatives will be participating in panels whose task it is to enforce American trade law against Canadians. Canada will be, in effect, sanctifying these unfair trade laws. This will further undermine our bargaining position.

Negotiations on subsidies are only the most prominent of the many ongoing discussions specified by the agreement. The agreement commits Canada to further negotiations to harmonize nonagricultural technical standards--that is article 608--to bring more services under the agreement; to expand the provisions on government procurement; to facilitate temporary entry for business purposes; and to eliminate impediments to trade in tourism services.

In addition to the secretariat set up to supervise binational dispute settlement in antidumping and countervail duty matters and the working group to discipline subsidies and establish rules on dumping, there are at least 11 more subsidiary institutions established to further elaborate and implement the agreement: eight working groups on agricultural regulations and standards, including fertilizers, seeds, animal health, inspection and pesticides; a panel to assess the North American auto industry and to recommend public policies; a new consultative mechanism between the US Department of the Treasury and the Canadian Department of Finance to oversee liberalization of financial services; and a joint advisory committee on outstanding issues relating to retransmission rights. There is also a commitment to develop a common position with the US at the General Agreement on Tariffs and Trade negotiations to eliminate agricultural subsidies.

This proliferation of negotiations and consultative mechanisms between Ottawa and Washington will not only create extensive new levels of trade bureaucracy, but it will also reduce the ability of the federal and provincial governments to develop distinctive policies responsive to Canadian needs. As our governments become more accountable to Washington officials, they become less accountable to Canadians.

We urge the Ontario government to state now that it will not co-operate in further negotiations to discipline subsidies or to extend the agreement in other areas and that it will not be bound by the results of these negotiations.

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Ms. Hogarth-Griffiths: The federal government has assured Canadians that agricultural marketing boards, the Canadian health care system and cultural policy are unaffected by this agreement. But if you carefully examine the agreement and the economic changes and market pressures which it will unleash, it can be seen that these assurances are misleading.

Existing supply management boards are grandparented in the agreement. The agreement also recognizes the right of both parties to put new import quotas in place. But the removal of tariffs on processed foods means that existing supply management systems will be undermined by competitive pressures and makes it most unlikely that any new supply management systems will be put in place. Canadian food processors will be unable to compete head on with their American importers if they must pay higher prices for supply managed imports. Either these companies will relocate in the US where costs are lower, or marketing boards will be changed. Workers in the food processing industry, which is one of the largest manufacturing employers in the country, and many farmers are imperilled by this deal.

In the health care field, Canadian consumers and provincial governments must already pay higher prices for prescription drugs as a result of the new regressive drug bill, which was Canada's down payment for free trade negotiations with the US. Chapter 14 of the agreement also gives US-based firms the right to manage many Canadian health services, for example, hospitals, nursing homes, homes for the mentally retarded, public health clinics, ambulance services and medical laboratories. Canada's universal medicare provides cheaper and higher quality medical care than the private American system. Under free trade, we will import the clearly inferior profit-oriented American health care system. Also, there are no guarantees that US companies, who have to absorb the higher cost of private health insurance plans, will not challenge public health insurance as an unfair subsidy. Clearly, health care is very much affected.

The free trade agreement explicitly exempts certain Canadian cultural industries, but what is given with one hand is taken away with the other. Article 2005 permits the US to retaliate against any Canadian measures which harm them commercially. The US is authorized to take countermeasures of "equivalent commercial effect." This is a powerful disincentive for Canadian governments seeking to strengthen Canada's cultural industries which are now heavily dominated by US interests.

These are but three examples of how this agreement shifts the ground which underlies many distinctive Canadian policies and programs. Most of the organizations that oppose this deal do not have the resources to undertake the kind of detailed study necessary to spell out these connections. The federal government and its corporate allies have spent millions of dollars to sell this deal to the Canadian public, and the Ontario government is one of the few bodies opposing the deal that has the capability to quickly undertake these studies.

We realize that the provincial government has already researched many of the broader implications of this agreement for Canadian sovereignty and

distinctive Canadian public policies and programs, but we wish to see more research, especially on neglected issues like the effect on the Canadian environment, regional development, resource management and social programs. We urge that all the studies already completed be made public at once and that the results of any new studies be shared widely. It is crucial for provincial politicians and officials to explain and discuss their findings widely with the general public.

Mr. Howlett: Some supporters of this agreement have deliberately tried to incite anti-Ontario sentiment to promote this deal. They want to sell this deal in the resource-dependent regions of the country by attacking "fat cat" Ontario and to neutralize the opposition of the Ontario government and other Ontarians opposed to this deal by creating the fear of regional divisions.

The Coalition Against Free Trade is part of the Pro-Canada Network which brings together representatives of coalitions and organizations from all regions of this country who oppose this deal. There are now anti-free trade coalitions active in every province. We can attest to the strength of the opposition in all regions of Canada.

It would be a great pity if this government and legislature were intimidated by the federal government's anti-Ontario rhetoric. All Ontarians must be sensitive to the provincial economy's relatively privileged position within Canada and to the need for national economic policies which will narrow regional disparities. But the regional benefits of the proposed agreement have been greatly exaggerated. There is no evidence to support the Prime Minister's suggestion that this agreement will be a bonanza for the outlying regions; nor are regional development programs protected by the agreement. The federal government's arguments will not stand up to scrutiny.

The Ontario government must work more closely with the government of Manitoba and Prince Edward Island, with the two federal opposition parties and with popular organizations from across the country to fight the deal. We believe that opposition to this agreement is high in Ontario largely because the recent provincial election raised public awareness and knowledge of the issue. Once Canadians in all regions of the country understand this deal better, and the threat it poses to Canadian jobs, cultural independence and sovereignty, we are confident they will reject it.

We urge the Legislature and the government of Ontario to take part in a nationwide campaign against this agreement. This issue goes to the heart of Canada's survival as a distinct society. Within our federal system, provincial representatives are expected, indeed obliged, to contribute to such a vital policy debate.

Ms. Hogarth-Griffiths: We appreciate that the majority of the members of this committee and the provincial Legislature oppose this agreement, but it is not enough simply to state this opposition publicly. The fight must be carried to all Canadians in all parts of the province and the country. Ultimately, it will be up to the Canadian people to pass judgement on this deal in a federal election. But the province must play an important role in raising the issue and in helping to push for a federal election before the agreement is ratified or implemented.

Unfortunately, free trade supporters have interpreted the low-key opposition of the Peterson government as a signal that the province has thrown in the towel on the free trade issue. There is an article that has been

disseminated by Informetrica, which quotes an article in the Financial Post that says that Premier Peterson has admitted defeat in Ontario's opposition to the Canada-US trade agreement. This impression must be laid to rest. We urge the Premier, the provincial government and the members of this Legislature to fight this agreement because it is a bad deal for Ontario and it is a bad deal for Canada.

The will to fight must be conveyed forcefully to the Mulroney government, the Reagan administration and the US Congress. Ontario must make clear that it will strongly resist this encroachment on provincial powers because the free trade agreement lessens its ability to govern in the public interest. It must demonstrate that its concerns are based on careful study of the proposed agreement, and it must share these studies publicly. Finally, it must take its message to all parts of the country and join with the many other Canadians who are mobilizing to stop this deal.

Mr. Chairman: Thank you very much. It was a very well presented brief. The content, in so far as the opposition to the agreement is concerned, is certainly well documented.

There are a couple of points, though, that I would like to ask you about. I also read that article, but I also read an article indicating that when the Premier was sitting on the plane on his way to Europe and was handed a copy of the Financial Post by the stewardess, he became quite livid when he read the article himself. So I am wondering whether it is a good tactic to continually repeat that.

Ms. Hogarth-Griffiths: No, simply because if he has been really angered by it, I think that is wonderful. I think what we would like to see is the response to that being not just anger at being misquoted but an actual positive response of going out to people and saying, as he did during the last election, "I personally and my government and this province as a whole actively oppose this deal."

Mr. Chairman: What else specifically should we be doing?

Ms. Hogarth-Griffiths: As we have suggested in the brief, research should be undertaken on a sectoral basis and this research should be got out to the public. I do not know whether you saw in Monday's Globe and Mail the article, "Pollsters Find Contradictory Reactions" on the free trade question. It is clear from the number of different polls that have been taken by many different organizations that while there seems to be an even split of those opposed and those in favour, there are, none the less, a lot of people who might, in concept or in an ideal world, be prepared to accept a free trade agreement, but who are increasingly, as they understand the actual nitty gritty of this deal, opposed to this deal.

I think it is absolutely vital that people get out there. You have the capacity to do the research, to get this information out so that the average Ontarian understands, because the other thing that is very clear from the polls is that most people do not understand what is in the deal.

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Mr. Chairman: Tomorrow our committee is going to be discussing some proposals we have been germinating with regard to the analysis and so on, and perhaps you can be of some assistance--perhaps even later today--with us in that regard. You have to bear in mind that we saw this agreement for the first

time on December 11. The federal government already had in process a \$12.7-million advertising campaign.

Mr. Ferraro: They flushed that one down the toilet.

Mr. Chairman: They flushed a lot of it down the toilet; that is true. But they had a very aggressive campaign ready to go. The consultation was minimal. We are really just getting started now. Would you suggest that this committee, for instance, go out west? I have been out there talking to legislators, and the mere fact that I am from Ontario does an incredible amount of harm to my argument. I do not have much credibility out there.

Mr. Howlett: I think what is really important is that we look at the aspects of the deal that infringe on provincial powers. I know one area is the whole constitutional powers question. I know there are studies going on and constitutional lawyers are debating that. Arguments can be made on both sides of that.

The other area we were trying to draw attention to, though, is that in addition to the strictly legal constitutional area, this deal is going to set in motion economic pressures and other pressures that are going to undermine many programs that are provincial, such as health care, agricultural marketing boards and some of the resource policies. I suppose we could continue to have marketing boards in name, but what would they be able to do? Would they be able to set a price that would guarantee adequate returns to farmers under this deal and have any markets in the food processing industry here in Canada? No. It is crazy.

It is the same thing with health care, the combination of the new drug bill, the kind of pressure that is going to be unleashed for harmonization of tax policies and, very likely, pressure from the United States in the next five to seven years, where it is going to try to negotiate a common code on subsidies. They are going to say that health care is unfair. What is going to be the end of that?

It may be we can keep provincial programs in name, but the premiums will have to be put up to the same level as those of private insurance in the United States. Then it would not be unfair. We may have to do that anyway because of the tax pressures and the costs of the drugs. But it is in these ways that provincial powers are going to be affected--constitutionally but also indirectly in other ways. It will really undermine the ability of provincial governments to legislate in their public interest.

This is something which is of concern to people out west and particularly in the Atlantic provinces, where they depend on government programs even more than they do in Ontario. I think it is very misleading to take the opposition of a Premier Vander Zalm or a Premier Devine to represent the province. Both of those premiers are down in the bottom of the polls. Their own people do not support them. So I do not think it is right for the Ontario government and government leaders to be intimidated by this kind of thing.

The other thing is that I think Ontario needs to speak out not in the interests of Ontario but in the interests of all Canadians. This is a deal which I think is going to affect, in the end, our democratic rights. It is going to affect how Canadians can legislate in their own interest. Unless we as Canadians--all Canadians, not just people in Ontario but people right across the country--are given a chance to decide on this issue through a

federal election, I think there will be a great injustice done. I think it is important for Ontario to say, "We are not going to implement this thing until all Canadians, not just Ontario but all Canadians, have the chance to decide if this is what they want for their future or not."

By doing it that way, I think it can deflect against being fat-cat Ontario trying to stop the deal in its own interest; it is Ontario standing up for the rights of all Canadians to choose if this is the kind of future they want.

Mr. Chairman: This is what is so frustrating, though. The Premier (Mr. Peterson) has said we are not going to implement anything. The Premier has called for a federal election on the issue. The Attorney General was before our committee yesterday and told us that this makes Meech Lake pale, that this document will destroy Canada as a federal country. I did not read a story in a single newspaper as a result of that. Maybe he should be saying it in another province, but--

Mr. Sinclair: Quebec.

Mr. Chairman: As I say, when you try to go there as a provincial legislator, you are starting, unfortunately, with perhaps less credibility than you have.

Ms. Hogarth-Griffiths: In some ways that is true, because we do have coalitions across the country.

Can I just pick up on the thing about research? This is something we mentioned in our brief. ACTRA has done a lot of research on exactly what this deal will mean to cultural workers in our jurisdiction across the country, and we would be glad to contribute any knowledge we have to your research efforts. I am sure that would be true of many other organizations within the coalition as well.

Mr. Chairman: Thank you.

Mr. Mackenzie: First, the list of organizations in the coalition is impressive and its work is starting to get into the media, which I think is important.

I am glad to see you underline very early in your presentation one of the comments that was made by the Attorney General in his presentation to us, that if this agreement is instituted by the federal government against the wishes of the province or without enabling legislation being debated in the House, then it is a major shift in constitutional authority in this country. I think that should concern all of us.

I want to also congratulate you on your efforts to tighten up the position of the provincial government. I think my difference with my colleagues was outlined very clearly in the referral motion that sent this deal to this particular committee. When substantial efforts were made in debate in the House to toughen the reference, and that was defeated, I did not see any support from government members. They may have thought it was adequate. That may have been a mistake altogether. I have some sympathy for the Tory position that said it should have been referred to this committee without any recommendation. Inasmuch as it was referred to this committee with a very weak recommendation, we felt in opposition to it.

I would suggest to members of the coalition that one of the things they watch very carefully is the report this committee presents to the House, if and when we present it to the House. It seems to me that we have the opportunity here, and that every member on this committee has the opportunity, to come down with a recommendation asking the government of Ontario to be much tougher in terms of its opposition to this deal, to make it very clear to the federal government, I think in writing, that it will not enact or support legislation areas that impinge on Ontario's jurisdiction and to make this position known not only to the other provinces but to the American government as well.

If this issue is as serious as you think it is and as I personally think it is, then it is that kind of all-out attack on the deal itself that has to take place. It seems to me that we do have the option of bringing into the House a much tougher position from this committee, and I would suggest that is something your coalition members watch very carefully. I simply do not think we can get away with saying "Hey, we're agin it" but not lay out the fact that we are ready to make that position public and to fight for it from coast to coast.

I am sorry, I just really wanted you, as a coalition, to watch very carefully what happens within this committee, because I think it may be an indication back to the House of how tough the government is prepared to be.

Mr. Pelissero: I have more of a comment than a question. I think your suggestion in a couple of areas, in terms of what the Premier has been saying about this deal and the one particular article, and certainly his actions and statements during the last two weeks when he has been in Europe and, in some cases very openly, either he or the Treasurer (Mr. Nixon) jousting with Clayton Yeutter, as an example, in terms of provincial compliance to this deal and what it means if we do not, I do not know how much more I would expect of the Premier without getting into a position where we set ourselves up as Ontario versus the rest of Canada.

What happens in that scenario is that it takes the focus off the deal, because the media then love to write about: "Here is fat-cat Ontario. What right does it have to speak for the rest of Canada?" I think the Premier has been very prudent in simply saying, "Look at the deal." He has been saying that consistently.

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Certainly, as the chairman pointed out, we did not see the elements of the deal until December, and people are just beginning to understand the importance and the impact it is going to have on their lives and their sectors for the future. I would urge some caution in terms of saying that we need to be shouting from the rooftops that Ontario speaks for Canada, because there are other provincial, democratically elected jurisdictions that do that.

Polls are nice, but they are not the ultimate judge and jury. I would also caution against saying, because Vander Zalm and Getty and some of the other premiers may be at the bottom of their polls--they were elected for whatever reason, and I would certainly have respect for that. At some time they will be facing the ultimate poll, which is the electorate.

When we start to go in the direction of saying we should be going out west as a committee, with all due respect, Mr. Chairman, I felt it was important to say I would not be in favour of that. It takes away from the

focus on the deal. The Globe and Mail article you held up basically reinforced the position: People like the concept of free trade; they do not necessarily understand or support the concept of this particular deal. We have a responsibility as legislators to try to educate and inform the public. I do not think it is served by saying that Ontario globally speaks for Canada, because then the focus is shifted.

It does not take much to shift it. We saw what happened to the Minister of Industry, Trade and Technology (Mr. Kwinter). He made a statement in the House and it was taken the wrong way. I do not think I would want to be part of any action that would do that. I share the same degree of concern Mr. Mackenzie does. I think when the facts are put to the people in such a way that they can understand them, they are going to make the appropriate and correct decision. This was more a comment than a question.

Mr. Howlett: Could I respond to that? We share some of the frustration the Premier must feel about the media and part of the way in which they have dealt with this issue, particularly in the more recent period. Prior to last summer, I think the media was more even-handed on the issue. We have noticed a major shift. I do not know if that is as a result of pressure coming from those who own the media or the CBC's fear of not getting the news channel or what. But we have noticed a major change.

It does show the need for Ontario to be not just opposed to the deal--we know the Ontario government is opposed to the deal, we know the Legislature passed a resolution--it has to appear to be opposed and continue throughout the period. It is not good enough to have just one resolution and then let it die. The Premier, ministers and members of the Legislature need to be speaking out as much as they can.

I had a phone conversation last night with a congressional aide in Washington. One of his first questions was, "What is this about the Premier of Ontario throwing in the towel?" I set him straight on that. I said that was really a headline that was not correct. What was said in the body of the article was that the Ontario government would not challenge the issue to the Supreme Court. There may be some good reason for Ontario not issuing the challenge, but waiting for the federal government to try to force the provinces, and at that point, have it in the court.

That debate can be made, but the important thing is that unless the opposition is continually and clearly stated, not only here in Ontario but also, I would argue, where opportunities might arise in other provinces, I think there is a need for this to happen. Ontario has to continually speak out on this.

Mr. Pelissero: From my perspective, at every opportunity that I have had to speak, in terms of speaking engagements, whether it has been to service clubs, even prior to being elected, the main focus has been the free trade agreement. I have a number of speaking engagements coming up and they are all on free trade. I could probably say the same thing for a number of the other members of not only the committee but also of our caucus in terms of that being the subject.

I recognize that from the media's point of view we have been talking about it for about two and a half years. At some point in time they tend to turn off, as most of the public does. We now have a number of other issues, whether it is abortion or Marcel Masse or de Cotret in terms of resignations. There are a number of other issues that are a lot catchier to the media. We

live in an instant society and if we cannot give it to them in 90 seconds, they are not interested in it. That is a shame, but we have a responsibility to make sure that our process is as thoughtful and consistent as possible, and I think we have been doing that.

Mr. Chairman: Well said.

Mr. Ferraro: First, let me thank the delegation for its presentation. Without regurgitating what some of my colleagues have said, you obviously know the problem. The problem is one of communicating, to say the least. This is leading up to a question, but I just want to point out some of the pitfalls that could happen.

We had a presentation from the Ministry of Energy a week ago. It was a very informative one, I thought. Indeed, comments were made by myself vis-à-vis, if you will, a double standard being applied by the oil producers. To be brief, I said something to the effect, and I still believe it, that when times are bad, they want the Canadian taxpayers to assist them. I think that is good and right. Indeed, that has been the precedent. When times are good, they are saying basically, "No, keep your hands out," vis-à-vis the energy provisions.

What resulted, of course, was an editorial in the Calgary Herald, in essence condemning me, and the typical Ontario attitude, I suspect, which I am sure blows my chances to be Prime Minister. I can tell you, I am just absolutely distraught over that.

My point is, I want to reiterate that the gentleman hit the nail on the head, as echoed by the Attorney General. When the implementing legislation comes down, that is when you will really see whether or not Ontario is taking a judicial position. I think anything in the interim really is ridiculous. You may want to get a copy of the Attorney General's speech yesterday.

I do not have any real problem in trying to get across what I believe are the right message and the facts about this deal, and I think it is important that we do that. The Conservatives' position--and it is interesting that they do not have anybody here at the moment--was that they accepted the damned deal in September and we did not get it until December 11. I do not know how you can accept something when you have not seen it. Having said all that, I do not have any real problem in getting the message across in Canada; but I do have some difficulty, as a Canadian, in saying that I want to take this thing to the United States, for a number of reasons.

First, I think, as a part of Canada and as a part of this federalism that we have now, it is important that we keep it in our own country and that ultimately Canadians will decide. I think it is doing exactly what--and you may argue this--we are fearing the federal government is doing with its trade deal; that is, detracting from the idea of federalism. I am just wondering whether it is counterproductive to take the argument outside Canada.

The other argument of course is, is it counterproductive to go out to Calgary and say, "Look, I think we got hoodwinked." I guess what I am saying is, do you honestly see that there would be more positive gains if we were to take our concerns outside our country?

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Ms. Hogarth-Griffiths: Actually, I happened to be in California on

January 2, when this deal was signed, and there were demonstrations at the border that were televised. This was shown nationally in the United States, on NBC and ABC, and it was subsequently shown even in the local television area in the Monterey peninsula where I happened to be. It was shown without comment and with, if anything, rather an air of astonishment--"Look what is happening"--because the average American is not even aware that there is such a thing as a free trade deal.

Mr. Ferraro: We found that out.

Ms. Hogarth-Griffiths: Yes, I think there is some value in letting the Congress know exactly what kinds of people in Canada are opposing this deal. You see the list of people who are supportive of the coalition. Speaking myself on behalf of cultural workers, to me that is a fundamental aspect of this country which is in serious jeopardy, not just in terms of the whole depiction of Canada by Canadians but also in hard economic terms as well. Why most cultural workers are vehemently opposed to this deal is because it is their bread and butter. We have such a tiny, tiny fraction of our own culture and under this deal we will lose even that small fraction.

In fact, we have already lost. We have lost our so-called cinema legislation. It is obviously one of the first things, just in my own area in the country, that has gone down the tubes because of what the Americans want.

Mr. Howlett: I think a distinction has to be made between informing Americans of the opposition--and I think it is right and proper that we do that--and trying to defeat the deal in the United States. I think that is a mistake. I think the deal has to be defeated by the Canadian people in an election. That is the ultimate resolution of this issue.

Mr. Mackenzie: Especially since we asked for it and the Americans did not.

Mr. Howlett: I think we have to live with the Americans, and that is why it is important to have people in the United States, particularly government people, understand why we are opposed to this deal. It is not that we are anti-American; it is that we want a different kind of basis for our relations with the United States, one that would respect our sovereignty. That has to be communicated. Unless we communicate that carefully, they may get the wrong message, so I think it is important for the government of Ontario and for other groups in Canada to communicate why we are opposed and try to make sure that message gets across to the United States.

I do not think the US Congress is going to defeat it. If they get a chance to vote for it, they will probably pass it because it is such a great deal for the United States. What will likely happen, though, is they will probably name Canada in the omnibus trade bill. Contrary to what Mulroney has promised--that this is a way to escape the omnibus trade bill--that will not happen. It is also very likely that the Congress will, in effect, amend the agreement as it gets involved in the drafting of the implementing legislation. It was confirmed by my sources in Washington just last night that this is most likely to happen.

In other words, the importance of that will be it will show that, contrary to what the standing committees--the federal external affairs and international trade committees--say, this deal should not be accepted if it is amended or if Canada is hit by the omnibus trade bill. It will give us political ammunition here in Canada because even the Tory support for this

deal could be undermined if these things happen, and I think they will. But it is important that the deal be defeated here in Canada and ultimately by the Canadian people.

Mr. Sinclair: I would like to throw out the question of whether Ontario politicians and elected representatives and officials should be carrying this issue to other regions of the country. At the coalition, we believe this is important because we are playing catch-up and the federal government and its corporate allies have blanketed this country with literature which in some cases is either misleading or does not fully deal with all the implications of the deal.

Ms. Hogarth-Griffiths: Included in your baby bonus cheques too.

Mr. Sinclair: That is right.

Ms. Hogarth-Griffiths: In government pension cheques and in baby bonus cheques came a small leaflet suggesting to people that they could get more information on this wonderful deal.

Mr. Ferraro: I saw those things in grocery stores, those brochures.

Mr. Sinclair: We are playing catch-up. We do not have that much time. I think what is wise is to choose the topics carefully. Energy and manufacturing are regionally divisive issues. People in the regions do not want to be told by Ontario what energy policy should be, after the national energy program. Manufacturing is centred in Ontario. These two sectors play up the image of "fat cat" Ontario. What you have to do is go and talk to them about environment and you have to have your arguments right. You have to talk to them about consumer prices. You have to talk about health care and social programs, regional development and cultural sovereignty, and give them reasons, intelligent arguments, and you will get a receptive audience. It is vitally important that these issues be raised.

Mr. Chairman: The major breakthrough in defeating this in the United States would be congressional blocking. I was in Washington last week and I got the impression that the opposition there is very fragmented. While there may be some posturing that will occur, it is likely to go through.

For us to go down there and say there are great bodies of Canadians who are not happy with this deal, psychologically, for instance, given the reasons you gave us for being unhappy with it, these are not particularly the reasons that are going to fly in Peoria, if you know what I mean. They are not bread-and-butter issues that the Americans will be concerned about in a congressional election year. Rather, the issue that we really need to sell to them, I suppose, would be to show that it is not good for the United States, which would be awfully hard to do. I am just wondering whether we would be again, for similar reasons, doing a disservice to our cause by making our opposition that clear at this stage.

Mr. Howlett: The message that has to be communicated is: "Look, Reagan is on his way out. Mulroney is going to be on his way out. Let us not get stuck on this deal."

If Canadians reject the deal, we need to understand that we do not want to be anti-American. What we want is to develop a different basis of relations with the United States. It is at that level that I think the discussions have

to take place, and they have to take place with some of the Democratic Party people who may form the next administration, to help them understand why there is opposition here and why they need to look at a different basis for relations in the future.

It is preparing for the future. It is not aiming to defeat the deal through adding opposition to this in the United States. I do not think that is the point. It is to prepare the groundwork for the future, when hopefully we can be rid of this deal and hopefully rid of Mulroney as well. We will at that point still have a good basis of working relations with the United States. That is the important thing.

Mr. Mackenzie: Surely, Mr. Chairman, we would not wish to imitate the action of the Conservative government federally, whose initial position was not to give all the information out, so as to confuse the people.

Mr. Chairman: I am not suggesting we not give it out. I am just wondering whether we should flog it.

Mr. Ferraro, if it is all right with you, we will distribute the editorial in the Calgary Herald as an exhibit, but I must say the last Guelphian to seek to be Prime Minister was George Drew, and he was not very successful either.

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Mr. Dietsch: I have some difficulty with what I hear being said, in respect of going south of the border to expound on what is a bad deal for Canada. Quite frankly, if I were an American and I heard this type of deliverance of all the ills involved, which I know happen to be many, I would look at it from an American point of view and say, "If it is so bad for them, it must be good for us," and take that purely opposite view: "We should be putting pressure on our Congress to accept the arrangement." I think we have to be extremely careful in how we project a picture of this kind forward.

Mr. Chairman: It is partly an internal debate, because we are planning to go to Washington in March.

Mr. Morin-Strom: Just very briefly on this issue of going to the United States, I continue to think it is a very important role for our committee to be down there and for the Ontario government and opposition forces to this agreement to be down there. The importance is not to try to convince the Americans to stop the agreement; the importance is to communicate the difficulty that many Canadians have with the agreement. The difficulty is not that the Americans are going to be the winners; the difficulty has to do with the philosophical and political direction in which this agreement is taking us as a nation and the restrictions it is going to put, particularly on issues of Canadian policy and the right to develop independently in the direction that we, as Canadians, feel we should be going.

Mr. Ferraro: Do you think they give a damn?

Mr. Morin-Strom: No. I think they have to have an understanding, they have to know that the agreement has a very good chance of being cancelled by a new government. If they are not aware of that, then we are subject to greater retaliatory action than might otherwise be the case.

In my view, we are in a sense being held ransom by our federal government by being put in the position of having an agreement which has not been ratified by the Canadian people, and we are potentially going to be subject to retaliatory action by the US at the time of the cancellation of that agreement. If they are not aware that there is a very good possibility of that happening, we are subjecting ourselves to greater penalties in getting out of it than might otherwise be necessary. If they are aware that this debate is quite a divisive one and there is a very good possibility the agreement is going to be abrogated, they will be more accepting of what is very likely the case.

Mr. Dietsch: If you think they cannot read, you are kidding yourself.

Mr. Morin-Strom: I do not know how many times you have been to Washington, but I have been to Washington with this committee three times. The Americans can read, but they do not read anything in their papers about Canada, and they do not have a clue as to what is going on in this country.

The last time we were down there, one of the most revealing meetings we had was with Senator Matsunaga, who cast the deciding vote in the Senate finance committee over two years ago which commenced this whole process. That meeting was perhaps a year and a half or at least a year after he had cast the deciding vote to decide we were going to go into this process, and still the lack of understanding about what was going on in Canada and what Canada was about was just astounding. He was very friendly to us and very positive towards Canadians, but he had an attitude and stated that the sooner we blend our two countries together the better off we all are.

Mr. Haggerty: "You speak English. We speak English."

Mr. Morin-Strom: The other one was on the language thing. He said, "They are trying to develop closer relationships with Japan all the time"--certainly, being from Hawaii, he was concerned about that--"but the big advantage we have with Canada and the United States is we all speak the same language."

Mr. Haggerty: He wanted a common market.

Mr. Chairman: Of course, Andy Brandt wants that too.

Mr. Morin-Strom: When we reminded him, "What about those speaking French in Quebec?" he said, "Oh, well, they all speak English too."

The understanding of Canada there is really deplorable, and the need for communications with the Americans to give them a perspective different to what is being given by the federal government is a role which I feel has to be played, even though obviously in our committee it will be a very small role with the potential of a few people, but it is the overall job that has to be done by various forces that are trying to stop this agreement and protect Canadian interests in the longer run, particularly trying to ameliorate the potentially damaging consequences of the position we have been put into by these trade negotiations and an agreement which may well be implemented without any ratification within Canada whatsoever. That is enough on that.

Next I would like to go to the issue of your concerns about where we are going in the Ontario government on this issue, and I think you should have some concerns about ambivalence setting in within the government. The media

coverage is not inappropriate when we look at their lack of focus on the Ontario opposition. When you look at the resolution that was passed by this House, they have good cause for concern about whether the Premier (Mr. Peterson) is throwing in the towel or is going to be throwing in the towel on this agreement.

The resolution, as it was worded, is a noncommittal resolution. While it states that the agreement is a bad one, or not a good one, all it does in terms of commitment from the province is that it says--the key words were that Ontario will not be bound to implement the deal. The Liberal government refused to say it will not implement the deal or that it would take any positive steps to counteract the deal. They have just said, "We will not be forced by Prime Minister Mulroney to implement the deal." In fact, it left the door open for the Premier, of his own volition, to implement any portions of this agreement that may be required by the federal government.

I think it is important that you, as an organization, continue to pressure the Ontario government for a stronger position on this issue, and I hope our committee would take a much stronger position on this issue than the resolution that has been passed to this point.

Finally, getting to a question, I want to look at where we are going after the federal election in terms of stopping the deal. It is quite clear that this next election will be focused heavily on the free trade issue, and I take it that your position is that somehow this deal has to be stopped. Debate is developing, apparently-- we have seen it in this committee and I saw in the paper yesterday--within the Liberal Party as to whether we should be abrogating or cancelling this deal or whether we should be just renegotiating the deal, whatever that means.

It seems to me that one of the issues here is the whole philosophical thrust of this agreement. I would like to know whether you have a position on what a new Canadian government should do with this agreement, particularly given the strong possibility the election will not happen this year but we will be into the implementation of the agreement. What will you be pressing a new government to do with this agreement?

Mr. Howlett: I think there are two points there. One is that it is very important to try to force an election this year, before this deal becomes implemented. I think that has been the major priority of the Pro-Canada Network and the Coalition Against Free Trade over this past year, to push for an election. I think we have been successful in that there is an expectation of an election this year and public opinion is strongly in favour of having an election on this issue. But Mulroney does not have to follow that. With Côté and another cabinet minister down the drain and so on, his poll is going to go down again and he may decide to just hang in there. Even though it will look as if he is chicken and is unprepared to face the people on this issue and in the end it will damage him more, I think he may just try to hang in there.

For that reason--as a way to try to ensure there will be an election before implementation--I think it is very important for the Ontario government to state clearly it will not implement this unless all Canadians have had a chance to decide on it through an election.

The second point, with respect to what happens if there is not, I think is still very important. The deal states clearly that the government has a right to abrogate with six months' notice. That should be carried out whether the deal has officially come into force or not. The fact is, if it is not put to the electorate, I think we have to consider that it has not been properly decided on by the people of Canada and therefore any future government would have the expectation and the responsibility of abrogation.

Whether or not you try to renegotiate the deal, my reading of the US situation is that it would not be possible to get a deal much different from the one the Tories got, trying to negotiate with the US. They were not strongly enough interested in getting a deal to have made many more concessions than they did. We almost did not have a deal because the Americans simply were not interested enough, and it was only because of all the concessions Mulroney gave in the end that they finally said: "Gee, this is too good to pass up. Let's agree to it."

Although a different government may pursue a different negotiating strategy, if you are still trying to negotiate a comprehensive, overall deal, you would not get results much different from what they are now, unless there is a major change in the US as a result of the election. At the same time, I think negotiations with the United States will be necessary in the future, but it would be much better to do them on a case-by-case basis.

I think a lot less damage has been done to Canada by dealing with problems that have come up, whether it be shakes and shingles, softwood lumber, potash or whatever, on a case-by-case basis and trying to come up with a resolution to the particular issue that would be least damaging to Canada, rather than by going into an agreement, cutting ourselves off across the board and hitting areas that were not even being affected by the United States countervail. In effect, we have overreacted to that.

I think the protectionist mood in the United States is probably going to decrease and is going to be less of a problem in the future. I do not see any reason why we should try to negotiate another comprehensive deal. I do not think the results would be much different.

Mr. Haggerty: I thought maybe my colleague Mr. Morin-Strom would tell him everything that we found in our trip to Washington about a year ago. We talked to a number of senators. One of the interesting things, which shocked me more than anything, was the meeting the committee had with the trade and commerce people in the United States. We got into dealing with some numbers. We indicated that the numbers they were using on the trade imbalance between Canada and the United States were wrong and they admitted that the numbers they were using were about 50 per cent out. So when we pinned it down on that area there, the comment that came back to us was, "Until you Canadians can pick up your fair share of the security shield"--that is the word they used. Can you not recall it, Mr. Chairman?

I take that now and I see what has taken place here in Canada. It relates to our military buildup, you might say, here in Canada and the loss of our sovereignty rights over the Arctic waters, which had always been part of the colonial government years ago. We have lost that. We have also made a commitment to purchase 12 nuclear submarines. We are purchasing frigates and having a number of military buildups required to maintain security in the North Atlantic Treaty Organization. This, I believe, is all part of this free trade deal. They are holding this clout over our heads in this area too as much as with the omnibus bill.

One of the things I can say about this committee and our visit early in the spring last year was that when we went down, we took reporters with us. This is how you got some of the comments that came back to the Canadian papers. I think it was about the first time that had ever happened. Are we going to do that this year, Mr. Chairman?

Mr. Chairman: The committee will have to decide. The reporters ended up coming with us. One reporter has indicated an interest in coming with us. The committee decided to invite reporters into meetings with us. Mrs. Oberstar's view is that you get a clearer discussion if they are not there, but obviously we had some pretty clear discussions in any event.

Mr. Haggerty: I thought we did, too.

Mr. Chairman: Senator Matsunaga did not seem to be impeded by reporters, and he knew they were there.

Mr. Haggerty: Perhaps this time we should be looking for somebody from Canadian Press to go along, who gives a broader view of news across Canada.

Mr. Chairman: The reporter who has approached me is with the Toronto Star.

Mr. Haggerty: I just share some of those things with you about what took place last year. I do not know what we will find out this year, but I think almost everything is there. If this deal goes through, I do not think we will be calling ourselves Canadians very long.

Ms. Hogarth-Griffiths: As they are dealing with figures that are 50 per cent off, you might tell them that 97 per cent of the films shown in this country are not Canadian. We have no control over our film distribution in this country, and all the income generated by that 97 per cent of films shown here leaves the country.

Mr. Haggerty: That is the information this committee needs when we go down there.

Ms. Hogarth-Griffiths: I personally would be glad to get you all kinds of information from the cultural sector.

Mr. Chairman: I have already asked Mr. McLellan, our researcher, to discuss this with you perhaps as soon as we break. He has some proposals he is preparing for the committee to look at tomorrow for research retainers.

Mr. Haggerty's point was a rather interesting one in view of the omnibus trade bill, that basically the American position was that Canada had a \$20-billion trade deficit. We obtained some figures from the Canadian embassy to the effect that it was somewhere between 11 and 14 per cent, and that is in goods only. If you balance that with the services deficit, which goes the other way, particularly interest on loans, etc., it came out in 1986 to be almost even.

We presented those figures to the deputy assistant secretary of Commerce, Ann Hughes, and she agreed they were correct. In fact, the United States does not control the inventory of goods leaving the country to come over the border in trucks, trains and so forth, and it was only after they had

looked at the Canadian material that they agreed the Canadian figures were much, much more accurate. I think they were \$8 billion or \$10 billion out and we were about \$500 million out, and they adjusted their two figures accordingly.

The difficult and scary part of this is that the omnibus trade bill talks about countries that have a trade surplus with the United States and the President will be ordered to take action against them. If they are not using accurate figures, that makes it even more difficult.

I had some information when I was there last week--this was from a Department of State official--to the effect that he thinks perhaps the omnibus trade bill will not even pass because the climate is changing. That could change again.

Mr. Howlett: I got the same reading last night when talking to my sources.

Mr. Chairman: if Congressman Gephardt wins the Iowa caucus on Monday, we may be back where we were. This has been a fascinating meeting.

Mr. Haggerty: If the delegation here requests it, would any information the committee gets be available to it?

Mr. Chairman: Any information we have, certainly. We have asked for and obtained undertakings from most of the ministries in this government that, as they get information they will make it available to us. Certainly, we are quite prepared to make it available to you. In addition, obviously, you can help us. Thank you very much.

The committee recessed at 12:10 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

WEDNESDAY, FEBRUARY 3, 1988

Afternoon Sitting



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)
Haggerty, Ray (Niagara South L)
Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Neumann, David E. (Brantford L)
Nixon, J. Bradford (York Mills L)
Pelissero, Harry E. (Lincoln L)
Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Dietsch, Michael M. (St. Catharines-Brock L) for Mr. J. B. Nixon
Nicholas, Cindy (Scarborough Centre L) for Mr. Neumann
Sterling, Norman W. (Carleton PC) for Mr. Villeneuve

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the United Steelworkers of America, District 6:

Gerard, Leo, Director

Mackenzie, Hugh, Research Director

From the Ministry of Mines:

Smith, Brock, Deputy Minister of Mines and Deputy Minister of Northern
Development

Anders, Dr. Gerhard, Manager, Mineral Analysis and Statistics Section

Stevenson, Dr. W. W., Director, Corporate Policy and Planning Secretariat

LEGISLATIVE ASSEMBLY OF ONTARIO
STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday, February 3, 1988

The committee met at 2:07 p.m. in committee room 228.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: Perhaps we could get started. I have a correction and an apology. The Toronto Star did do a story on the visit of the Attorney General (Mr. Scott) to our committee yesterday. I had not seen it this morning.

The next witnesses we have are from the United Steelworkers of America. We have Leo Gerard, who is director of the association and Hugh Mackenzie, research director. They have given us what looks to be a good brief. We have not read it yet, obviously, so perhaps you could lead us through it and then that will raise some questions.

UNITED STEELWORKERS OF AMERICA

Mr. Gerard: Let me start off by telling some members of the committee who may not know about my union something about it. The United Steelworkers of America is what is commonly referred to as an international union, basically meaning that we have members in more than one country. In the Steelworkers we have members in Canada, the United States and the Caribbean.

I want to be on the record to tell you that our union, on both sides of the border, not only is opposed to this deal but is also opposed to the principle of free trade.

Mr. Haggerty: Is that really the same thing?

Mr. Gerard: Sure is. Why not let me finish and then question me after?

Mr. Williams, as the Canadian head of the international union, is opposed to the deal, our executive board is opposed to the deal and the union as an organization has policies on both sides of the border opposing this deal and opposing free trade in any form. I really want to be on the record about that.

I also want to tell you that District 6 of the United Steelworkers of America is the largest district in this union in Canada. It is the largest district in the international union, in that we have members from Red Lake to Hawkesbury and from Windsor to Detour Lake, so that in almost every community in this province we have members and we have offices in 22 different cities or towns. So it is not a union that speaks with a very narrow vision of the difficulties of free trade or this deal, which is not a free trade deal. I really wanted to put that in perspective before I start with the formal part of the brief.

. So much has been said in the past two years about this Canada-United States trade deal, which we call the Mulroney-Reagan economic agreement, and the negotiations that led to it that it is hard to know where to start.

Leaders of our union have made countless speeches and presentations such as this in every region of Canada and in fact in almost every region of Ontario. We have analysed the impact of the agreement in the west and in Atlantic Canada. We have debated the implications of the deal for the steel industry, the mining industry and the manufacturing industry. We have looked at what free trade means for resource industries and economic diversification in northern Ontario and for manufacturing activity in Metropolitan Toronto.

We have shared what we have learned and the conclusions we have drawn with people from every walk of life, from every segment of Canadian society and representing virtually every conceivable public policy interest. At our national policy conference in Vancouver last spring, we debated and passed a detailed statement of our union's position on the issues of principle raised by the Canada-US trade pact. Since the text was released, we have talked extensively with our members about the implications of the deal for their jobs, their future and the future of our country.

When we deal with questions at some later point, we would be happy to discuss any aspect of the agreement or its implications that the members of this committee may wish to discuss. Our formal remarks will, however, address three specific points that are of particular concern.

First, the trade debate itself: The arguments of the Mulroney trade proponents seem to have been granted some sort of immunity from the facts. It is bad enough that the process--or lack of process--for ratification of the deal in Canada is an insult to the democratic process in Canada. What makes matters worse is arguments that have been demonstrated long ago to be without foundation never seem to go away.

Second, the implications of the Mulroney-Reagan deal for Canadian industrial policy: Although there is a growing awareness of the fact that the Mulroney-Reagan deal is closer to Ronald Reagan's economic constitution for North America than it is to Brian Mulroney's guaranteed access to the US market, I do not believe that the impact of the deal on virtually every conceivable area of industrial policy has yet been adequately addressed.

Third, the scope for Ontario to register its opposition to the deal: The government of Ontario's opposition to free trade, quite frankly, has fallen flat. From ringing election campaign declarations that Ontario would block any deal that was not good for Canada, the government's opposition has disintegrated to the point where the only concrete action suggested, a refusal to end preferential treatment of Ontario wines, now has become a national joke.

Arguments for free trade: "Don't confuse me with the facts." The persistence with which advocates of the trade deal repeat arguments that have been demonstrated clearly to be invalid is truly remarkable. The so-called disputes resolution mechanism continues to be touted as a guarantee of access to the US market when it is absolutely clear from the text of the agreement that it does no such thing.

Does it resolve disputes? No. It is merely a substitute for judicial review of administrative decisions, a review that is so limited in scope that it must follow previously established US practices and precedents. But US practices and precedents were what the fuss was all about in the first place.

Is Canada better off with it or without it? No. Indeed, by implicitly accepting the legitimacy of US trade laws to which we have previously objected and by forgoing the much more broadly based General Agreement on Tariffs and

Trade appeal process, the agreement may leave us worse off. Free trade advocates continue to assert that Canadians will be able to go to the US, load up with consumer goods and simply drive through the border. Minister for International Trade Pat Carney is one of the worst offenders on this matter.

The problem again is it is simply not true. Her own officials have made it clear that the limits on the value of goods brought back to Canada will still apply and that federal and provincial sales tax will continue to be collected. Furthermore, many of the most attractive goods available in the US, consumer electronic equipment, for example, will not qualify for duty-free entry under the agreement's rules of origin anyway.

Resource industries continue to be cited as examples of big winners under the agreement, conveniently ignoring three key facts. First, almost all Canadian resource products already enter the United States duty-free. Second, with very few exceptions, resource products do not face any serious protectionist threat in the United States. Third, for those few products that face a threat, the agreement does nothing to improve the situation.

Free trade advocates continue to assert that the auto pact is preserved, some even go so far as to say enhanced, by the deal. Again, that is simply not true. The form of the auto pact is retained, but the agreement makes the auto pact meaningless by allowing companies duty-free status whether they meet the Canadian content requirements or not. And it goes further, prohibiting Canada from negotiating any agreements similar to the auto pact with any other country and outlawing any trade policy that links tariff reductions to performance requirements.

Prime Minister Mulroney has even had the nerve to credit the free trade deal with the expansion of the Honda plant in Alliston. He neglects to mention that the duty remission programs that attracted Honda here in the first place are specifically terminated in this agreement.

Free trade advocates continue to assert that free trade will be a bonanza for the weaker economic regions of Canada, despite the specific admission by federal officials that the definition of "subsidy" in US trade laws will require Canada to dismantle its traditional approach to regional development programs and regional assistance.

Free trade apologists continue to claim that Canada's cultural policies are protected by the deal, conveniently ignoring an article that gives the United States the right to "commercially equivalent" retaliation against any future Canadian cultural policies.

The free trade clique continues to boast that the agreement would, by itself, bring unquestioned prosperity to Canada. Last summer, the figure was half a million jobs. Less than six months later, just three weeks ago, in fact, that figure had dropped to 120,000 jobs. That is just 24,000 per year, less than one tenth of a year's normal job creation in Canada in the 1980s. These figures were created by the government's own free trade facts machine using its most favourable assumptions available.

Finally, the free trade public relations machine would like Canadians to believe that free trade is a battle that puts labour, supposedly speaking for a narrow, parochial interest, against the business community, supposedly representing, of course, the general interest in Canada's future prosperity.

In fact, the free trade debate is between some big business leaders, the

US-dominated resource and branch plant manufacturing industries and their apologists, on one hand, and virtually every other organized segment of Canadian society on the other, from women's groups, to church groups, to the entire cultural community, to environmental groups, to the poor.

Even the business community is anything but unanimous. I never thought I would be here in this House quoting Frank Stronach, but Frank Stronach, president of Magna International, the largest Canadian auto parts producer, is also opposed to the deal. I need a drink of water after that one. Peter Nygard, Canada's most successful clothing and textile entrepreneur, is opposed to the deal. Roger Phillips, president of Interprovincial Steel and Pipe Corp. in Regina, is opposed to the deal because he believes that Canada was taken to the cleaners. I am having a hard time with this paragraph. Even the Bank of Nova Scotia has come out in opposition.

Mr. Ferraro: Now I have heard it all.

Mr. Gerard: I need another drink.

Mr. Haggerty: They may have the water next.

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Mr. Gerard: They may have the water when this is all over. You are right.

Those are just the ones who are able to air their opposition publicly. There are many others opposed to the deal who cannot or will not talk because of pressure from US-dominated big business. I have personally spoken to a number of business leaders in this country who believe privately that the deal will be a disaster for their industries and their employees but who cannot speak out publicly.

From the day the preliminary transcript of the agreement was released in October, the free trade cheerleaders have been consistent in their attempts to confuse the public about the real impact on Canadian jobs, Canadian trade and Canadian economic and political sovereignty. To put it bluntly and directly, free trade advocates up to and including the Prime Minister have not been telling Canadians the truth about the Mulroney-Reagan trade deal.

I will talk now about free trade and Canadian industrial policy. "The Canadians do not understand what they have signed. In 20 years, they will be sucked into the US economy." That is not a quote of the Canadian Labour Congress. That is a quote of US Trade Representative Clayton Yeutter in October 1987. United States President Ronald Reagan has described the Canada-US trade agreement as "an economic constitution for North America." For once, he was neither confused nor exaggerating.

The Mulroney-Reagan trade deal is much more than a trade agreement. The deal goes far beyond the nuts and bolts of Canadian tariffs and the administration of US trade law to encompass virtually every area of public policy of any significance to Canada's economic future. The impact of the deal on Canada's economic policy independence is, quite frankly, staggering.

The agreement either eliminates or sharply curtails Canada's policy flexibility in seven key areas which are central to any coherent economic policy in a country with an economic structure like Canada's.

1. Foreign investment: The agreement specifically prevents Canada from

establishing performance criteria for US investors in Canada. It also prevents Canada from establishing such criteria for foreign, non-US investors if the requirement adversely affects either Canada-US trade or the interests of US corporations. For Canada, with its extremely high level of foreign investment, the loss of the right to set criteria for such investment is a very serious loss of policy flexibility indeed.

2. Energy: For much of our history, the availability of relatively low-cost energy supplies has been one of Canada's economic advantages. That advantage has been used effectively by provincial governments to attract energy-intensive industries. For example, the provinces of Quebec, Manitoba, Ontario and British Columbia have all used low-cost hydroelectric power as a means of attracting smelting and other electricity-intensive industries. The province of Alberta has encouraged the development of a petrochemical industry through the application of preferential price and supply policies.

Such policies are now prohibited by this deal. No energy policy of the kind that kept oil prices in Ontario below world levels from 1974 to 1984 would be possible with this trade deal. It is also apparent that, in the long run, the deal will eventually force the equalization of domestic and export prices for electricity.

Energy is also an important industry in its own right. The trade agreement limits Canada's policy options for the development of this sector to incentives for resource development aimed at conserving the reserve base. It would not, for example, have permitted the kinds of pooled pricing arrangements that allowed for the development of oil sands projects when production costs were far higher than world prices.

It would also not have permitted the Ottawa Valley policy of the 1960s early 1970s which, prior to the success of the Organization of Petroleum Exporting Countries in pushing up oil prices, guaranteed Canadian oil a market at above world prices.

3. Trade policy: The agreement limits Canada's policy options for trade in three ways.

First, and most important, it eliminates the whole notion of trade policy as it relates to our biggest trading partner. In effect, Canada can have no policy regarding trade with the United States other than the free trade agreement. Indeed, by agreeing to a common process for judicial review of trade administrative decisions, Canada is effectively accepting the legitimacy of US trade laws as they may affect Canada.

Second, it specifically outlaws the use of performance-tied duty remission programs. Such programs have been used by Canada to encourage production in this country by allowing corporations that meet performance criteria to import into Canada duty free. The agreement prevents Canada from using such programs in its trade relationships with any other country.

Third, the agreement will create pressures to equalize Canadian and US tariffs on goods or services that are inputs into industries involved in Canada-US trade. The most obvious example is in the auto sector, where tariffs on parts are much higher in Canada than in the US. With free trade between Canada and the US, Canada's higher parts tariffs will actually become a disadvantage in attracting Japanese investors or other offshore investors to this country.

4. Regional and industrial development policies: Although the free trade

agreement does not specifically prevent Canada from carrying on with its traditional approach to regional and industrial development, it will make such policies very difficult to apply effectively. The trade agreement does not deal in any way with the extremely broad definition of "subsidy" in US trade law. Virtually every conceivable Canadian development policy is considered by the United States to be a subsidy. In fact, because Canada has agreed to a joint judicial review process in trade administration, Canadians will find themselves applying US definitions of what is a subsidy to Canadian programs.

That definition is, to say the least, extremely broad. While US subsidy rules do not directly prohibit Canada from carrying out industrial development programs, it does mean that industries assisted by these programs will have difficulty exporting to the United States without attracting US trade penalties. Federal officials have already admitted that policies such as those that brought Michelin to Nova Scotia would not be possible under this agreement.

Such industries would, of course, be allowed to sell into the Canadian market, but they would never be allowed to grow to North American scale and they would face competition under free trade from US firms that are already of that scale.

5. Agriculture: While agricultural policy is not normally thought of as an industrial policy, it really should be. The goal of the agreement in agriculture is to open up the North American market on a competitive basis, but in agriculture more than in any other sector we have to face reality. We cannot hope to compete with the agricultural industry of the US on an equal basis. That has absolutely nothing to do with how good our farmers are. It has strictly to do with climate and soil conditions.

A level playing field in agriculture is meaningless. To extend the analogy, the level playing field in agriculture has all of the heaters at one end of the field.

6. Cultural policies: Paragraph 2 of article 2005 of the deal would allow the United States to "take measures of equivalent commercial effect" in response to cultural policies that limit US cultural industries' access to the Canadian market. What this means in plain English is that the United States can earmark a particular retaliatory measure as a response to a particular cultural initiative.

The potential impact of such selectivity on the political basis for cultural policies in Canada is, quite frankly, obvious. It will give the US an immense scope for political interference in our cultural matters. Imagine the impact, for example, of a steel or fish export rollback in response to a film distribution policy.

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7. Crown corporations and monopolies: Property rights have been the most ideologically laden of constitutional issues in Canada. Many Canadians have been concerned about the limitations imposed by the entrenchment of private property rights on the use of public initiative and public enterprise as part of an industrial strategy for Canada.

Article 1605 of the Mulroney-Reagan economic agreement establishes rights equivalent to entrenched private property rights for US investors in Canada. The article, quite frankly, goes beyond national treatment--the

requirement that US corporations be treated the same way as Canadian corporations--to impose restrictions on the expropriation of the property of US investors, even where no restrictions are applied to the expropriation of Canadian-owned private property.

It requires, among other things, that the expropriation be "for a public purpose"--not defined in the deal, by the way--and that fair market value be paid for the property. It also covers property either directly or indirectly nationalized or expropriated and applies to all levels of government and to "any measure or series of measures tantamount to an expropriation."

Significant government initiatives, such as public automobile insurance, would become virtually impossible under these kinds of restrictions. The introduction of medicare, for example, would likely have required governments to buy out the private health insurance business of the US companies that were active in the field at the same time as the public policy initiative.

The restrictions on monopolies are also important. Article 2010 of the agreement would prevent monopolies from establishing preferred-supplier agreements, such as that between Northern Telecom and Bell Canada. The US government estimates that the elimination of Bell's preferred-supplier arrangement with Northern would generate \$100 million a year in new US exports to Canada. In the process, an important Canadian high-tech industry, we think, might be weakened.

What can Ontario do? As a close observer of the performance of the Liberal Party as a majority, it is hard for me to avoid the conclusion that the government of Ontario intends to roll over and play dead on the issue of free trade, much to my dismay. It is four months since the election campaign, more than three months since the transcript of the deal was released and more than one month since the final wording of the deal was made public. The only concrete idea from the government has been a suggestion that Ontario will fight to the death to preserve our right to drink our own Ontario wine.

People keep asking, what can Ontario do? On behalf of my union, I have some suggestions that flow directly from the deal.

1. To publish and publicize a consumer guide to the trade deal, to make it clear what the agreement means for consumer prices, including the impact on the deal on transborder shopping expeditions referred to in chapter 3 of the deal.
2. Identify publicly the plants in Ontario that will lose the benefit of duty waiver programs as a result of the deal; chapter 4 of the deal.
3. Strengthen requirements that Ontario resources be processed and refined in this province; chapter 4 of the deal.
4. Declare that Ontario will not accord national treatment to US goods as required by article 502 of the deal.
5. Review Ontario's technical standards legislation with a view to exercising Ontario's full constitutional authority in this area, referred to in chapter 6 of the deal.
6. Expand and strengthen Ontario's agricultural marketing board structure if needed; chapter 7 of the deal.
7. In accordance with the accepted GATT principles, substitute indirect

subsidies of grape growers for the direct subsidy of Ontario wine through Liquor Control Board of Ontario pricing policies; chapter 8 of the deal.

8. Expand and strengthen Ontario's energy regulatory authority to the full limits of provincial jurisdiction; chapter 9 of the deal.

9. Introduce new regulations governing the sale of American used cars; chapter 10 of the deal.

10. Strengthen Ontario's government procurement preferences; chapter 11 of the deal.

11. Immediately cancel Ontario's plans to deregulate the transportation industry; chapter 14 of the deal.

12. Develop specific preferential policies for Ontario-based service industries; chapter 14 of the deal.

13. Require that all additional social and health services delivered by the private sector in Ontario be delivered on a nonprofit basis, and phase out existing profit-making public service delivery; chapter 14 of the deal.

14. Develop and implement investment policies to the limit of Ontario's constitutional jurisdiction; chapter 16 of the deal.

15. Declare Ontario's refusal to implement the provisions of article 1605 except to the extent that they are consistent with Ontario legislation dealing with expropriation.

16. Expand and strengthen Ontario's cultural policies to the limit of Ontario's constitutional jurisdiction; referred to, as I said earlier, in article 2005.

17. Declare that Ontario will not act in accordance with article 2010, which limits the treatment of monopolies.

In addition to those actions and declarations, Ontario should begin now to prepare constitutional references with respect to any aspect of the agreement that impinges in any way on provincial constitutional authority.

Finally, the government of Ontario should devote significant resources to the preparation and dissemination of informational material designed to counteract the one-sided and, quite frankly, misleading material already being provided to Ontario residents by the government of Canada, which is, quite frankly, not telling the truth.

Conclusions: I am not under any illusions, nor are the members of my union, about either the willingness of the Ontario government to take any concrete action to impede the implementation of this trade deal or about the likely impact of such actions if they were to take place.

The issue of free trade is not going to be settled in this committee, quite frankly, nor will it be settled by the Ontario Legislature. It is probably not going to be resolved by this government. It is not going to be resolved in the House of Commons or through any action of the government of Canada.

In its final sense, it is going to be resolved by individual Canadians

from coast to coast making their individual decisions about the impact of the trade deal on their future and the future of this country. In the final analysis, Ontario's most effective role in opposition to free trade or this deal is to do everything in its power to help and to inform and to influence the way that decision is going to be made.

I leave with you those 17 suggestions.

Mr. Chairman: Thank you very much. My copy has 16, but--

Mr. Gerard: There are two number sixes. It is a trick we use in bargaining.

Mr. Pelissero: No wonder you have so many strikes.

Mr. Gerard: Or so many settlements.

Mr. Chairman: I have questions from Mr. Morin-Strom and Mr. Mackenzie.

Mr. Morin-Strom: I sincerely want to thank Mr. Gerard for making this presentation on behalf of this union. Certainly, it is a very forceful one. It gets to the point and raises a lot of questions that are in my mind and, I think, in a lot of minds across this province, about the seriousness of this government to actually take action on this most important issue.

One of the issues being raised is, in fact, what is going to happen after this next federal election. It would appear that--

Mr. Gerard: Oh, Ed is going to tear up the deal.

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Mr. Morin-Strom: I certainly share your hope that that is what is going to happen, but I want to let you know that we are hearing concerns expressed by some of the Liberal members of this committee, and as reiterated in the paper yesterday in the comments of the Premier (Mr. Peterson), that in fact there is a split within the Liberal Party apparently about whether the agreement should be torn up or whether it should be renegotiated and changes made to the existing deal.

Do you think we can in any way accept the philosophical thrust of the agreement or accept major portions of the agreement and just make changes to the basic agreement, or is your priority in terms of the next federal government the cancellation of the agreement and working for a whole new framework for our trading relationship with the United States?

Mr. Gerard: Let me try to give that a fairly broad but also fairly brief answer. I started off my comments with some preliminary stuff about our union's being opposed, on both sides of the border, to the concept of free trade and to this deal.

We are opposed to the concept of free trade because we think we see it for what it is. It really is a strategy that has been designed to convince people that the free hand of the market rules best. We have this free trade policy, which means that goods and capital can flow wherever it is best to produce them, which means that you take it--to quote Frank Stronach, "Capital has no conscience"--to where you can maximize your profit, whether that be at

the point of a gun in South Korea or behind some industrial free zone in Mexico.

The world has not developed because there has been a free hand of the market always at work. It has developed because people with some vision have been able to use some of the strengths they have as nations. In Canada, we have some tremendous strengths in our resource sector that we could be using to develop a manufacturing sector.

When people come to me and say that we are protectionists and we want to build a wall around ourselves, I usually respond by asking someone to tell me why there is a steel plant in Japan. There is no cheap energy, there is no coal and there is no iron ore in Japan. The reason there is a steel plant and a steel industry in Japan is that the Japanese decided after the war--it was part of their national economic policy--that they needed a viable, strong and technologically advanced steel industry so that they could then have a manufacturing base.

They built one; they protected it. You cannot get a pound of steel into Japan, or almost anything else, for that matter. They protected it. Once it was the most technologically advanced, they sicked it out on the world. They then used it to develop a car industry the same way, then they sicked that out on the world.

You can take that kind of attitude and say that to some degree you need to use your strengths to develop your industries so that you can compete on a world scale, not from the position of a low-wage economy, not from the position of the lowest common denominator so that the corporations, again to quote Frank Stronach, that have no conscience can go out and maximize their profits at the expense of the developing industrial economy or industrial strategy of a nation.

Having said that, I think there are alternatives. We can use the auto pact, not as an example of free trade but as an example of negotiating a managed trade agreement between two trading partners where it is a win-win situation. We could be able to develop those kinds of trading arrangements, not just between Canada and the US but between other nations, where we manage the flow of goods and services.

Much to my surprise, there is now substantial discussion going on in the European and world steel communities about the world steel industry getting together to manage the flow of steel. While we are moving in one Neanderthal direction with the free hand of the market and the corporate sector ruling, there is a whole bunch of people in the world far more progressive than we are talking about how to manage the flow of goods so that all nations can grow rather than going for the lowest common denominator.

I think the first thing you do is rip up the deal. You forget the concept of free trade, because no such thing exists, and then you start looking at how you can use your strengths as a nation to have a viable industrial policy, to use your strengths to develop a viable economy, then go out and develop world trading relationships.

That is sort of a brief answer to your question.

Mr. Morin-Strom: Do you have any sense as to what the ultimate objective is of the proponents of this agreement?

Mr. Gerard: I think we get confused by thinking that this is meant

to be a trade agreement and just that. I think this is an agreement that is meant to instil into this country an ideology this government could not get if it tried to do it as part of a national economic strategy. When they wanted to sell off some of the crown corporations such as Petro-Canada and Air Canada, when they wanted to de-index pensions, when they wanted to do those kinds of things, there was a public outcry like they did not believe would happen and they had to back off.

If this deal had been in place 20 years ago, we would not have a Petro-Canada, would no longer have Air Canada and could not have the kind of medical system and the kinds of pension systems we have because it limits the ability of government to intervene in its own public policy decision-making. I think this agenda is more than an economic agenda; it is an installation of an ideology into this country that is alien to this country. Whichever government has been in power--Liberal, Conservative or New Democrat--when it happens, federally--

Mr. Ferraro: God forbid.

Mr. Gerard: Every government up until this one has seen the benefit of a mixed economy and the ability to intervene, to make decisions that were best for the nation, not decisions that were best for corporations. Quite frankly, this government gave enough away to the Americans prior to the deal, everything from the drug-pricing policies to softwood and shakes and shingles, that if the Americans had had to negotiate just what we gave them, they would call it a victory. They gave away the bargaining chips and then they went and gave away the ability to bargain a good deal.

Mr. Morin-Strom: Would you characterize this as probably the single largest thrust in terms of the imposition of an ideology by a government in Canada?

Mr. Gerard: Without question. I would even go so far as to say that the deal is a declaration of dependence for Canada. It is a declaration of our dependence on the whims of American multinational corporations and the American government.

Mr. Morin-Strom: Finally, I would like to ask about the steel industry itself, which you have not addressed directly in here. Certainly on behalf of the steelworkers in the Sault, I think I had better ask what you think is going to happen within the steel industry. The proponents of this free trade process all the way along have touted the steel industry as one of the supposed winners in a freer trade relationship with the United States. Have you seen or heard from the executives of the steel companies any evidence that this agreement is going to result in major new investments or significant increases in jobs for your members, or are there other aspects of their business or competitive environment which they may be seeing this impacting on?

Mr. Gerard: To go to the first part of your question, you asked if they were being touted as winners. They are winners. The problem is, how do you define what a winner is under this deal? We have been defining a winner as the person who held on to what he had. If you hold on to what you had under this deal, you are called a winner.

The steel industry is a winner under this deal using that approach. Under this deal, they contemplate that they will be able to keep the amount of access they have right now, access and penetration into the US market. Depending on whose numbers you want to use, they have somewhere in the

neighbourhood of between four per cent in a peak period and 2.5 per cent in a down period. It could probably well be argued that they are entitled to three per cent to 3.5 per cent, using historical data. The steel companies are saying they are winners because they will be able to maintain that access.

The problem with having just that narrow argument is that you forget the other things that may happen to the manufacturing base in Canada, whereby 75 per cent of Canadian production of steel is consumed in Canada and only about 20 per cent to 25 per cent is exported. If you have a substantial runoff of auto parts producers or loss of the light goods industry or the water heater industry or some of those industries that use a lot of steel, you may still maintain 3.5 per cent of the US market but you may lose a big chunk of your domestic market in Canada. There is that real difficulty with the way they are analysing the deal.

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The evidence I have--the best evidence that is available--is in a letter from John Allan to all the Stelco employees, included in their paycheques like government gives you the family allowance. He wanted the workers to support the deal basically because it might maintain the status quo.

Our local union in Hamilton has spent \$10,000 of the local's money on a campaign to educate its members about what the global impacts of this deal are on their future. I am going to be very candid. Our local union in Sault Ste. Marie, which has had a very difficult time, is quite nervous. A big part of their production is in steel pipe. A lot of the steel that is melted is used for the pipe business. They have been convinced that energy will boom and the pipe business will boom, so the steel mill will boom, which may well happen for a short term. In the long term, what will happen is that all those other considerations are there.

I was in Sault Ste. Marie at a meeting with the corporation and the executives of the local less than two weeks ago. There is not a steel company in Canada that is investing capital in equipment to get ready to expand into the US market. They are investing capital in equipment in this country so they can technologically produce steel cheaper and maximize their profits. No one is expanding in this industry in Canada so he can have greater access to the US. In fact, they have recommitted to the US that they will restrain their exports because they are still aware that retaliation under this deal is not only possible but also likely.

Mr. Morin-Strom: So this is not free trade for steel.

Mr. Gerard: Nothing has changed. There is no free trade for steel. There is no greater access. There is no protection. I have a letter, which was given to me not too long ago, that four of the steel caucus centres in the US have sent to Clayton Yeutter saying that Canada has once again increased its penetration into the market and they did not want the deal signed. They are not going to get off anyone's back and nothing is going to stop them. The harassment is not going to go away.

In fact, our ability to protect the industry may be diminished because of the process that has already been put in place and the fact that we are limited to that process. Under the General Agreement on Tariffs and Trade, the Americans could not do what they were threatening to do. Now that we have limited ourselves to American trade law, the Americans can pass a quota bill. They can pass a quota bill at whatever percentage they think is fair--if it is

three per cent--and once it passes that is their trade law. We have a lot to be afraid about, even the winners.

Mr. Chairman: You mentioned at the beginning of your presentation that the American union is opposed to this deal as well. Would that be based in part on the retention of the percentage of the American market by the Canadian industry?

Mr. Gerard: No, the reason the union, as an organization on both sides of the border, is opposed--as in my first comments about the whole ideology of free trade--is that it sees the deal as being bad for workers on both sides of the border. Workers on both sides of the border are going to be taken to the cleaners because what will happen is the market will look for wherever it can produce the good at the cheapest wage, with the lowest benefits, with the lowest social cost, up to and including the next step of this process. What no one should ignore is that the Americans have signed or will sign very shortly a deal with Mexico.

If you look at the country-of-origin rules under the existing deal, if you take raw resources from Mexico, transform them into wheels, motors, rotors and all those things and take them to the US and assemble them, the final assembled product is considered to be an American product and then is dumped in Canada. They are going to sign that deal. If they go and do the next deal with South Korea--this stuff is not going to end under the rules of origin of the trade deal. The trade deal specifically allows them to transform something into an assembly part and then take the assembly parts, assemble them into a final good and sell the final good as an American product.

Mr. Chairman: Has the American worker contemplated the growth of the manufacturing industry he is going to benefit from?

Mr. Gerard: No, the work we have done is that there will be no growth of manufacturing industry in the US. What will happen is, to use the example of the white goods industry, Whirlpool can serve the whole Canadian market, which is now done by Inglis, Camco, Admiral and a few other names, by basically running one overtime shift a month in the US.

Mr. Pelissero: Page 12 of your submission states: "We cannot hope to compete with the agriculture industry of the United States on an equal basis. That has nothing to do with how good our farmers are. It has strictly to do with climate and soil conditions."

I would take a little exception to that. Our farmers could compete, notwithstanding soil and climate, if the playing field were level in terms of subsidization. The subsidization of the American farmer is twice that of the Canadian farmer. There are a number of industries, whether it is the tender fruit industry or the grape and wine industry in its transition to produce a high quality wine--to my taste preference, a lot better than American wine--or in the greenhouse industry, whether it is the cut-dried flower industry or the greenhouse vegetable industry where I maintain we could compete if the playing field were level in terms of everything being equal.

Farmers and farm organizations have basically been saying that. Having been a farmer myself, I can certainly say that if you make everything equal, our farmers are more than able and up to the task of competing with Americans. Unfortunately, it is not equal. As you say, all of the heaters are at one end of the field in that they do not consider draining the Mississippi River to be

a benefit from a transportation point of view, yet they consider our tile drainage program to be a subsidy, so it is not level from that point of view.

Mr. Gerard: Exactly. I will ask Mr. Mackenzie to make a couple of comments on the specifics of what you were just saying. The point we are making in the page on agricultural policy is that, as difficult as it is presently for Canadian farmers to compete because it is not a level playing field, following this deal it will be even worse. That is the point we are making.

I have a lot of respect and admiration for the farmers of Ontario, having grown up in Sudbury and watched them do some tremendous things, growing underneath the acid rain. I know the kinds of trials and tribulations they go through. All the more reason for me to believe that given the same set of tools, the Canadian farmers would do quite well. But we do not have the same set of tools and under this deal we have no chance of ever having the same set of tools. As I say, the heaters are all at the other end of the field. Hugh has a specific point.

Mr. H. Mackenzie: We are obviously not experts on agriculture. You are much more expert than we are. The point of this was not to cast insults at Ontario farmers, but rather to make the point that in Canada we have developed an approach to the development of our agricultural industry. We have relied very heavily on marketing boards, as one example, and that sort of thing.

In the United States, they have relied very heavily on direct subsidies. What the deal does, basically, is start to make it more difficult to take our approach to the development of our agricultural sector, but it does nothing to limit the United States' ability to take its approach.

It is an interesting example of a process that, if you look at the deal on a piece-by-piece basis, over and over again you will see that an approach typically taken in the United States to industrial policy development is OK, but an approach typically taken in Canada to industrial policy development is not.

I will just give you one example. Nothing in this deal affects the US Army Corps of Engineers projects. They are considered to be military spending and none of the subsidies involved in that are considered to have anything to do with subsidizing any kind of production. The US Army Corps of Engineers projects, for instance, that subsidize transportation on the Mississippi River are OK, a major source of Chicago's ability to move goods, but we are not allowed to subsidize our rail industry.

There is just example after example of situations where the kind of approach the Americans take is, in effect, grandfathered into the deal, but the kind of approach we have traditionally taken in this country is specifically ruled out. It is true of trade policy where US free trade zones will be allowed under the deal, but Canada's duty waiver system will not, and so on.

I could go on all day talking about specific examples of where the deal is clearly tilted one way or the other.

1500

I just want to make one comment flowing from Mr. Morin-Strom's point about the question of tearing up the deal or going back and renegotiating. We

have already given the Americans everything they could possibly want. What is going to be the basis for renegotiating? We would have to go back and pull everything off the table that has been put on it. That is starting all over again; that is not renegotiating. I think at that point a prudent government, even a prudent Liberal government that has a lot of divisions internally, would want to sit back and think for a while about whether this is really the right course of action for us.

Mr. Chairman: If the committee agrees, we will keep going for a few minutes, as we have only one other presentation this afternoon.

Mr. R. Mackenzie: I have a couple of questions but first one statement, and I will make it very brief. I challenge anybody on the committee or anywhere else to show me one of the other briefs we have had in recent days--I am thinking probably more specifically of the business briefs--that has had the detail, the specifics, the suggestions and the areas that were at risk laid out so clearly and openly for debate or counter-argument from anybody else.

I think I can say it is going to be hard to dispute my comments. We have a brief here that has done what almost none of the other briefs has done to date. I can also tell you that in some of the briefs we have had in the last few days from the business community, there has been a fairly heavy emphasis on the leap of faith. Certainly, there has been a heavy emphasis on the need for improvements in productivity and getting the government, in effect, off the backs of companies. That has been as much the approach we have had in the pro-free-trade people as anything.

Here you have a very clear list of suggestions. People may or may not like them. I just want to congratulate you on it. In the 12 and a half years I have been in this House, I have not been accused once of harping on, nor have I once, as a number of members do, harped on my background or anything else. But I can tell you this brief makes me proud to be a steelworker--I am a steelworker to this day--in the way it has been laid out.

The questions are specific. You have really partially answered one. The union's position is the same whether it is in the United States or Canada. I think, almost in a jocular way, some people earlier on were trying to infer: "That is the Canadian union talking. What about the US union?"

Mr. Gerard: I guess I could not put it any clearer than to say that the president of our union is the former director of District 6. His children are working in Ontario. He probably has some concerns that his kids might lose their jobs too.

In a very serious way, we are opposed to the trade deal and to the ideology of free trade for the exact and specific reasons that those in the business community would come here and tell you that you need a deal; that is, we believe that in order to have a viable economy, whichever nation you are in, you need to have a degree of government intervention. You need to have a government that is prepared to regulate.

If there were no health and safety laws in this country, do you think we would have only 465,000 accidents? As tragic as that is, we would have a million accidents. If we did not have regulations about the environment, do you think Inco would have built the superstack and moved the acid rain to

Huronian? Government needs to intervene. Government needs to regulate. That is why we elect governments.

These guys would like to come and go and have no borders and move and have no regulations and just find the easiest way to maximize their profits. That is the specific reason we are opposed to it.

The other is that as we sit down at our international board and discuss this, there is not one person who is an elected officer of this union who can find any jobs being created in any area. What is going to happen is that corporations are going to maximize profits. They are going to turn up some stuff in one area, turn it down in another area and we are going to be left to the whims of these guys.

Mr. R. Mackenzie: Would you agree that an election should be held in this country before this deal is totally consummated?

Mr. Gerard: Yes. Let me put it in another perspective, that I am very proud of this union. When you get certified in the United Steelworkers of America, you are given the right to elect and to choose your negotiating committee by secret ballot vote. The negotiating committee then goes and negotiates the terms and conditions of employment with the employer. Before we ram that down anybody's throat, the membership is entitled to a secret ballot vote as to whether they want the terms and conditions of employment.

What this deal does is change the terms and conditions under which we are going to live in this country, the terms and conditions under which this country or any future government can intervene in how we are going to run the country, and I think that the citizens of Canada deserve no less than the Steelworkers are prepared to give their members.

Mr. R. Mackenzie: My final question is, diverging a bit from what we have been discussing here up until now, what is your impression of what would happen to the Canadian dollar? I will not tell you the reasons I am asking you that question, but what is your impression of what would happen to the Canadian dollar in a free trade agreement with the US?

Mr. Gerard: It depends what government we have after the next election too. I think it could probably be argued that--

Mr. Dietsch: Maybe you could answer it both ways.

Mr. Gerard: There is only one way, I hope.

I think there could be arguments made either way. There is every indication that there would be a greater emphasis to harmonize all the regulations in policy, be they tax policy or anything else, that will, I think, eventually force a greater harmonization of the currency rates.

Let me give you an example of what happens if that possibility comes true. As I have said, this is a very diverse union. I was in Pembroke just a few weeks ago. There is a very large manufacturer there, on a Pembroke scale, in the riding of one of the ministers--I forget his name--and we had some discussion. That corporation told us that if there is one-cent depreciation in the value of the Canadian dollar, it has to find an additional \$500,000. This is a corporation that last year lost \$3.5 million. Think of what happens if in the next year, as they are trying to get out of this mess they are in, there is a four-cent depreciation in the Canadian dollar. It probably means that

corporation would go into some serious difficulty in Pembroke, and it is the largest manufacturer in Pembroke.

If you relate that to my home town of Sudbury, in discussions with Inco some six months ago at a free trade forum, the vice-president of Inco said that a one-cent depreciation in the dollar meant an \$8-million loss in profits, as compared to a one-cent depreciation in the price of nickel with a \$4-million increase in profits, so the price of nickel has to go up two cents for every one-cent increase in the price of the dollar to break even.

Mr. R. Mackenzie: I will go over the reasons for that question with you another time, Mr. Gerard, but I just wanted your answer to it. I think you have given us something that gives us some clear direction. It is going to be interesting to see just how many of these recommendations, which certainly are specific and certainly would send a clear message as to where Ontario stands on this free trade agreement, can be incorporated into this committee's report. I advise you to watch it carefully.

Mr. Haggerty: I want to direct a couple of questions to Mr. Gerard. I understand the difficulties there are within some of the bargaining units in District 6 and the situation that there is up at the Sault and different opinions that are expressed, but I think that is a healthy situation when you have that. It keeps everybody very active.

Mr. Gerard: A democratic union.

Mr. Haggerty: That is right. When you talk about Lynn Williams, he was the district representative in the Niagara region back in the 1950s. My personal contact with him was back then, and I am glad he has been elevated to president of the United Steelworkers of America.

In your comments, on page 5, you talk about the jobs, and it has been indicated before by other witnesses here that 500,000 jobs would be lost and there would be some gains and losses here, winners and losers. Then the government came back out and said that the figure had dropped to 120,000 over a five-year period.

In your discussions within District 6 and other unions across Canada, has anybody ever suggested that an employment strategy program is needed now before you can get into this area of so-called free trade?

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Mr. Gerard: I think you have lost me. The employment strategy, you mean?

Mr. Haggerty: One of the things missing here is an employment strategy program. We have got some half-baked measures that say where persons are going to be losers in it, where jobs are lost, there will be retraining or compensation in that area. Have you done any in-depth study--

Mr. Gerard: Are you talking about adjustment programs?

Mr. Haggerty: Well, adjustment programs, but I am talking about an employment strategy program here. Have you done any analysis in this area of jobs that will be lost in this?

Mr. Gerard: In our union, as I said, because we are a very diverse

organization, we suspect we will lose a lot of jobs in what I would call branch plants of American multinationals which manufacture in Canada. I think we will lose a lot of jobs in some auto parts plants which will see an opening, not just to go to the US but to go to Mexico.

We lost a very, very long-time employer we had a relationship with in Rexdale, which went by three names over the term: Gidon Industries, later to be called Thrush Mufflers and finally G Enterprises, which manufactured automobile mufflers. They moved to Mexico under the trade deal and are manufacturing mufflers in Mexico which will be--

Mr. Haggerty: What do you mean by "trade deal"?

Mr. Gerard: Under this trade deal--

Mr. Haggerty: Under this trade deal. All right.

Mr. Gerard: They can now manufacture this stuff in Mexico. They are not original parts; they are secondary parts, and if they can convert that, they can ship it through Canada. So there is that kind of fear, as well.

We have a lot of companies which we are unsure will survive when the regional programs and regional assistance things start to take effect. We have serious concerns about some companies that operate and need subsidies to diversify and exist in northern Ontario through things like lower energy cost, etc.

We have not done a detailed plant-by-plant study of what will happen. We have 650 plants in Ontario. One thing I can clearly tell you: I have asked our staff and our local union officers, if any of them can get information which says their employer will definitely increase and jobs will be created, to find out how many; I have been trying to get this number now for a year and I cannot get anybody to come and tell me one. I am not so presumptuous as to assume there might not be one, but I have not been able to find one.

On the adjustment side, we are doing our own in-house, I guess you might call it that, adjustment initiatives with the steel companies. We are doing our own adjustment initiatives through collective bargaining, but the adjustment initiatives of the government are just not there.

To deal just very quickly with some of the numbers you threw out, I think one of the things that is really quite disturbing is that it seems to have a direct relationship to what the polls are saying, what numbers the government wants to use at any specific time. A few months ago, the polls were saying a certain thing. They were saying there would probably be a job loss of only 500,000--yet the Macdonald commission was talking about substantially more than that--and they were talking about tremendous job creation. Now the polls say something else. They are saying: "Well, there will not be much job loss. In fact, we think 120,000 jobs will be created." This is really quite mystical.

Mr. Haggerty: You do not know what the impact would be of dropping the 60 per cent content for parts on automobiles in Canada and the US? It has dropped down to 50 per cent. You did mention that some of them now had been moving, a spinoff into Mexico.

Mr. Gerard: Hugh has done some research work on that, and I will let him answer that.

Mr. H. Mackenzie: The auto pact is one of the areas where there has really been a lot of deception practised, frankly, about the impact of the deal. It is true that the auto pact, as a shell, remains, but under the terms of the deal, a product that is manufactured to the extent of 50 per cent content anywhere in either Canada or the United States will be able to flow between Canada and the United States duty-free.

This means that with respect to trade between Canada and the United States, a company will be able to get all the benefits that accrue to it from the auto pact without having to meet any of the safeguards. So it makes the safeguard completely irrelevant. I cannot think of an analogy off the top of my head, so I will not; I might get trapped in it. But essentially we have the shell of the auto pact remaining; the name is there, but the deal itself will give manufacturers all of the benefits they will be able to get without any of the requirements in terms of Canadian content.

Mr. Gerard: It is like Maple Leaf Gardens without a hockey team--that bad.

Mr. Ferraro: Just one question, Mr. Gerard. Just as I am sure it will come as no surprise that you and I will never agree as to who our choice of Prime Minister should be, I should say as well that I do not agree with everything you say in here, but that is no surprise, either.

One thing does intrigue me, sir.

Interjection: Watch out.

Mr. Ferraro: I do approve of your choice of ties, though, I must admit.

Mr. Gerard: This is because the workers bled before the Liberals did.

Mr. Ferraro: My question starts at the top of page 13. This, I must admit, is an intriguing concept that no other delegation has brought up. Let me elaborate a little. It is concerning property rights, and you say, "Canadians have been concerned about the limitations imposed by the entrenchment." Indeed, all members of this Legislature are fully aware of that debate, having dealt with a private member's bill. You go on basically to say, and correct me if I am wrong, that the private rights vis-à-vis this bill, in essence, give a little more than the rights that Canadians have today. Is that a fair assertion?

Mr. Gerard: Yes, I think it is a fair assertion.

Mr. Ferraro: Let me, if I can, and then I will ask you to clarify for me if you will. When I look at article 1605, that article in particular--do you have a copy of that?

Mr. H. Mackenzie: Mine is probably more dog-eared than yours.

Mr. Ferraro: Mine is too. I borrowed this. It says: "Neither party shall directly or indirectly nationalize or expropriate an investment in its territory by an investor of the other party or take any measure or series of measures tantamount to an expropriation of such an investment, except: a) for a public purpose; (b) in accordance with due process of law; c) on a nondiscriminatory basis; and d) upon payment of prompt, adequate and effective compensation at fair market value."

While I think this is a bad deal, I must query how you came up with your conclusions because what I sense, and I am no lawyer, is that that is essentially what every Canadian has now.

Mr. Gerard: Let me give you one example and Hugh Mackenzie can answer from the more technical point. The way I view that is that if we have an American auto insurance company operating in Ontario or Canada and we decide to implement a government-run auto insurance scheme--

Mr. Ferraro: God forbid.

Mr. Gerard: We hope it will happen under this government or another one. What will happen then, as it has done in other provinces, is that I would think under this deal you will then have to do some things that you did not have to do before for those corporations.

In Manitoba, if you wanted to implement when it was done, or in British Columbia or in other provinces, a government-run auto insurance scheme, we did not have to go and pay off all of the other insurance industries. The same thing could apply--

Mr. Ferraro: Maybe I am missing the point, because what has that got to do with expropriation?

Mr. Gerard: Because that is what it says in the deal. Go ahead.

Mr. H. Mackenzie: Let me spin out a scenario to you. Let us go back to when medicare was being introduced in Canada. Before medicare was introduced, there was a lot of privately run health insurance in Canada. It was not comprehensive, it was not universal, it did not have the same coverage; there were a lot of weaknesses in it. I think under the terms of this deal that would be considered to be an investment, and it is my view that if this deal had been in place when medicare was brought in, a government would have been obligated to compensate at least the American insurance companies that were providing that coverage for the loss of their business.

We did not do that. We just brought in medicare. When we brought in medicare in this country, we did not go to the American insurance companies, or any insurance companies, and say, "As a result of our occupying this field of public policy, we are going to compensate you for the loss of the business." One of the risks of operating a health insurance business is that maybe somebody else is going to come along and do it. That was the position that we took as a society.

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I think there is an excellent argument that could be made that making the Ontario government the exclusive provider of health insurance, as the Health Insurance Act did, would be a measure tantamount to expropriation, and compensation would have to be paid.

Mr. Chairman: I am going to have to cut this off. This has obviously been a fascinating presentation, and that is the reason I let it go on as long as I did. It has been very valuable. I might say that this committee seems to have found two areas where there will be growth in jobs. One is in trade lawyers and one is--and this is, in part, because I think my understanding of the rules of origin are a little different from your own, and I wish we had time to get into it--in customs officers. You might want to look into retraining steelworkers to become trade lawyers and customs officers.

Mr. Gerard: I suspect that if we could get a government to introduce those kinds of adjustment programs, we would have lots of steelworkers who would rather be lawyers than working in a steel mill. Let me just say that if you read the deal carefully, it may eventually end up that those lawyers are American lawyers and those customs brokers are American anyway.

Mr. Chairman: Yes, but there is presumably national treatment. We should be allowed to go down there and be Americans, if we want. Thank you very much.

Mr. Gerard: If I could just make one closing comment along the lines of what was said earlier, I accept, without any reason to doubt it, the integrity of the Premier (Mr. Peterson). Knowing how government operates, I hope to see--because he is committed to making sure the deal does not go through--that these 17 recommendations start to happen.

Mr. Chairman: They have been laid out very clearly, and I am sure Mr. Mackenzie will make sure that we consider them in our deliberations.

Mr. Mackenzie: --a year and a half ago.

Mr. Ferraro: I am sorry, I have another appointment. I will not be here for the next presentation. I am sure you all read the article about Judith Maxwell of the Economic Council of Canada. She made a presentation to the federal committee and has significantly, to say the least, limited the number of potential jobs being created, almost to the point that she has negated the 350,000 figure that has been expounded by everybody. I find that extremely interesting and, in my view, a very important assertion, coming from the Economic Council of Canada.

First, at the very least, can we get a copy of her presentation? Possibly the committee may want to consider inviting her as a delegate.

Mr. Chairman: We have already invited her, and she will be appearing in March. She wanted that time.

Mr. Ferraro: In the interim, can we get a copy of that presentation?

Mr. Chairman: Yes, we will.

Our next presentation will be from the Ministry of Northern Development and Mines. We apologize to the witnesses for the delay. I think they were observing most of it. We were involved in a very interesting discussion.

We have with us today Brock Smith, the deputy minister; Gerhard Anders, manager, mineral analysis and statistics section, mineral development and lands branch; and Dr. William Stevenson, director of corporate planning.

Gentlemen, if you make yourselves comfortable, we have in front of us your presentation. Obviously, we have not had an opportunity to go through it. Perhaps you can lead us through it.

MINISTRY OF NORTHERN DEVELOPMENT AND MINES

Mr. Smith: Thank you very much, Mr. Chairman. I am afraid I should apologize to you and the committee as well. I understand that we were scheduled to be here some time ago and, through a mixup in my own office, for which I take responsibility, we were not able to do that. But we appreciate your forbearance and the fact that you postponed our presentation to this time.

Mr. Chairman: That is quite understandable.

Mr. Smith: If it is OK with you, I will go through the statement and then take questions.

Mr. Chairman: Yes, please do.

MINISTRY OF NORTHERN DEVELOPMENT AND MINISTRY OF MINES

Mr. Smith: Mr. Chairman, members of the committee, I would like to thank you for this opportunity to appear. I will make some remarks about the northern economy and then a perspective--at least the perspective that we take with our ministerial responsibilities--on the Canada-US free trade agreement.

The core of northern Ontario's economy is the harvesting and processing of natural resources. As shown in attached appendices at the back of the statement, northern Ontario's employment in the primary sectors is four times greater, proportionately, than that of southern Ontario. Thirteen per cent of the employed labour force in the north works in the primary sectors compared to three per cent in the south.

Conversely, the manufacturing sector in northern Ontario, at 13 per cent of the employed labour force, is only half of the 23 per cent employed in the manufacturing sector in southern Ontario. Furthermore, 50 to 70 per cent of all manufacturing employment in the north is resource-based: sawmilling, mining, steel smelting and so on.

The resource dependence of the regional economy is reflected in its exports. More than \$8 billion worth of metals, minerals and forest products are exported from northern Ontario each year. More than half of this production is exported to the United States. This narrow range of exports has historically enjoyed low tariff rates into the US, as shown in appendix 2.

Because of the particular industrial structure of northern Ontario, this region has not fully recovered from the 1981-82 recession in the same way as the much broader and more diversified southern economy of Ontario. While employment in the north took a significant spurt in 1985, rising by some 35,000 jobs, its growth has been relatively flat since then.

Needless to say, the economy of northern Ontario is very sensitive to both the price cycle of commodities and the ongoing fundamental restructuring of its economy. In order to remain internationally competitive, northern Ontario's resource industries will have to continue to improve their productivity through capital investment which, hopefully, will lead to more employment gains.

Since the majority of the northern resource industry production is exported to the United States, unimpeded free access to that market is fundamental to the health of the northern economy. Recently, however, northern Ontario's vulnerability to harassment and penalties imposed by the US has come to the fore. A dramatic example of this was the softwood lumber case, which I am sure you have heard a fair amount about already.

From a northern perspective, the purpose of pursuing a free trade agreement with the United States was to ensure the continued unimpeded free access for northern Ontario exports to US markets. A second objective was protection from frivolous harassment and the third objective was fair

adjudication of trade disputes. Unfortunately, the final product negotiated was very different, in our view. What we have got is not a simple and straightforward free trade agreement, like the Canada-US auto pact, but rather a very complex and legalistic document.

Here I might pause to recall the cabinet subcommittee on the free trade which held a number of meetings in northern Ontario. At the first meeting, one of the presentations was made by Bill James, the president of Falconbridge, who, I might add, was in support of the agreement. To make his point, he held up a copy of the auto pact--and he held up only a couple of pages--and suggested that it is a pretty good document and has served Ontario well. In his other hand, he held up a great big batch of papers which he said was the pending trade bill in the United States Congress, with all the ominous implications it might hold for trade from Ontario and Canada to the US.

The obvious implication was that a free trade document like the auto pact was a good thing while the complicated and long trade bill in the United States was a bad thing, and the free trade agreement, as proposed, should be likened more akin to the auto pact than the other. Mr. James made an extremely good presentation, but he made that before the actual trade agreement was known, was published. I wonder what his presentation would be like today, if he had to do the same thing. I am not sure he could even lift it. He held up that agreement and then held up the auto pact. I wonder if he could make the same comparison. To define it, that is what I meant by "a complex and legalistic document."

Because of the complexity of the so-called Canada-US free trade agreement, more questions can be raised than answered. The unanswered questions in the trade agreement could increase the level of uncertainty in northern Ontario. As we all know, an uncertain trade climate is a bane to investment decision-making. Will major northern Ontario corporations and local entrepreneurs invest their dollars during the next decade while these uncertainties may or may not be clarified? Certainly, we have not seen any indication yet of major new investment plans related to the proposed agreement.

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A secondary purpose of the free trade agreement with the United States, from a northern perspective, would be to protect northern resource producers from frivolous and unfair countervail harassment by US competitors. The establishment of a binding dispute settlement mechanism in which both parties had confidence was supposed to offer this needed protection.

George Tough, Deputy Minister of Natural Resources, in his presentation to this committee, I believe, referred to this mechanism as the consolation prize to compensate for Canada's failure to achieve unimpeded access to the US market for our products. Unfortunately, even the consolation prize does not seem to be worth very much.

Chapter 19 of the agreement establishes a binational panel to give final review to cases of countervail action. The establishment of such a panel will not protect Canadian industry from unfair harassment from US producers. It will not impose a stiffer test for phrases like "injury to US producers." Article 1902 of the agreement preserves the right of parties to access trade law remedies and leaves Ontario industry vulnerable to continued harassment.

I go on here to quote article 1902, which refers to "antidumping law and countervailing duty law to goods imported from the territory of the other party." It states: "Antidumping law and countervailing duty law include, as appropriate for each party, relevant statutes, legislative history, regulations, administrative practice and judicial precedents."

The American political system, as you all know better than I, is very different from the Canadian one. Elected representatives from resource areas are forced to strongly champion the issues of local producers through the Congress and various tribunals. Nothing in this agreement is going to change that.

Finally, the proposed panel would not take into account the history, tradition or relative level of subsidization in each country for the industries in question. The mandate of the panel would not include judgements on the validity or fairness of the countervail actions. The mandate of the panel is to ensure that US laws are applied correctly without any concern, apparently, for the reason or tradition of Canadian policies.

A dramatic example of the political nature of American countervail actions and the vulnerability of northern Ontario to countervail harassment is the softwood lumber export tax. The US producers' case against Canadian softwood lumber producers was successfully fought off within the American judicial or quasi-judicial system in the early 1980s. But when the political and economic environment changed in the United States, the same issue, apparently, could not be fended off with rational arguments. Of course, the real issue here was not one of subsidies, but the lower value of the Canadian dollar and, I might add to that, the increased protectionist climate in the United States.

One of the greatest disappointments to northern Ontario under this proposed pact is the unfair and unacceptable export tax on softwood lumber, which has been incorporated into article 2009 of the free trade agreement rather than being abolished in the spirit of true free trade.

The enshrinement of the softwood lumber tax has set a terrible precedent. The combination of the free trade negotiations increasing American awareness of various Canadian taxation and expenditure subsidy programs and the many questions left unanswered in the agreement itself raises the spectre of similar countervail actions being initiated by US producers.

For example, in Ontario's Mining Act, section 104 mandates that all minerals mined in Ontario must be processed in Canada unless a specific exemption is received. This section has been successfully used, along with financial incentives, to convince major mining operations to build smelting and refining facilities in northern Ontario. I refer in particular to the Kidd Creek smelter which was built in the 1970s. One could ask the question: Could the proposed free trade agreement be used to restrict the province's ability to undertake such initiatives in the future?

The trade agreement must be put in the context of other major issue which affect the Canadian and northern Ontario economies. For example, the Canada-US exchange rate will have a much greater impact on northern Ontario's economy than this free trade agreement or many other economic issues.

The Ministry of Treasury and Economics estimates that for every cent decrease in the gap between the Canadian and the American dollar, a major

Canadian pulp and paper company will lose about \$15 million in pre-tax profit each year.

Most resource industries state that the most important reason for their current profitability is the relatively large gap between the two dollars. It is conceivable that competing US resource producers may put pressure on the American government to influence the Canadian government to do something about the remaining exchange gap, which the Americans could classify as some sort of subsidy to Canadian producers.

The proposed free trade agreement could negatively affect the mandate of the ministries of Northern Development and Mines. The mandate of these ministries is to foster economic growth and diversification of northern Ontario and to improve the quality of life in the region. The ministries work closely with municipalities to stabilize their economies and diversify their industrial base in order to avoid extremes of boom-and-bust cycles of commodity prices. It is unknown whether the trade agreement will encourage American producers to challenge our programs and initiatives as some form of unfair subsidy or incentive to northerners to export into the American market.

Some might argue that since the agreement does not mention provincial subsidies, this may not be a problem, but that argument raises another spectre. We have been concerned for some time that the federal government seems to be backing out of many of its traditional areas of responsibility in regional economic development. Recently, the federal government announced its Fednor program, which appears to be much less ambitious than what had been historically done by the federal government in this area. There is a concern whether the free trade agreement will encourage further federal disengagement from regional development.

Just recently, the chairman of the Canadian Pulp and Paper Association, Bernd Koken, was quoted in the January 28 Globe and Mail, as stating that the federal government is being forced by US protectionist measures to stop giving special subsidies to the pulp and paper industry.

In conclusion, I would like to reiterate this ministry's concerns that the trade deal is not really a free trade agreement; it does not guarantee northern Ontario free and unimpeded access to US markets; it does not provide a satisfactory dispute settlement mechanism; it does not remove the unfair export tax on softwood lumber; it may raise long-term implications about the relative value of the Canadian dollar; and it increases uncertainty about the future acceptability of provincial and federal regional economic development programming.

That is the conclusion of my statement.

Mr. Haggerty: Mr. Smith, your paper was well put this afternoon. You raise some concerns that have been raised by other witnesses before the committee.

Have you had any dialogue with your colleagues from other provinces on this free trade agreement?

Mr. Smith: I am not aware of any from a northern perspective. There are meetings of ministers of northern development or those with similar responsibilities. As best I can understand, there are few and far between in this country, although my colleagues here tell me they take place from time to

time. But since I have had my current responsibilities, there have been no such meetings at the minister or deputy minister level.

Mr. Haggerty: So you have had no dialogue with any other ones. You are not aware of any other provinces that may be thinking of the same feelings or opinions that are expressed here before this committee. Have any of them not raised any concerns with you about this?

Mr. Smith: I can well imagine such concerns.

Mr. Haggerty: I am talking about uranium, for example. It is one issue that some may not be too happy with. Saskatchewan is a province that is rich with uranium finds.

Mr. Smith: We have had no discussions of that nature.

Mr. Haggerty: No discussions at all?

Mr. Chairman: Is there any way that can subtly be done?

Mr. Smith: It could be done. The focus of these discussions, as you may be aware, has tended to go through first ministers. There may have been trade ministers' meetings. Ministers with other specific portfolios have tended not to have formal discussions on this matter.

Mr. Sterling: Thank you very much for coming to the committee again, Mr. Smith. I am always intrigued when one deputy minister comes to the committee and starts quoting another deputy minister in the government to back up his case. I was most interested in your quote from the Deputy Minister of Natural Resources.

Can I ask you a question about the concern that you have about the dispute resolution mechanism? Would you rather have the process put forward in this agreement than the status quo?

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Mr. Smith: I would rather have the status quo, because it is the devil we know and, up until at least the softwood lumber tax issue, it was a devil we seemed to be dealing with more or less effectively in this country. There are no concerns that I am aware of up until then in northern industries that were not resolved some way or another. As I refer to in the statement, the issue of softwood lumber is not new in the last couple of years; it goes back some time. Up until that time, Canadians seemed to be doing relatively well in the American judicial system.

The new process, of course, is the devil we do not know. Anything I would say is strictly opinion and speculation. Since it has not been established, we do not know how it will work, we do not know what its track record is or will be. Our concern, as I expressed here, is that its mandate is so tightly restricted to examine only aspects of legislation of those countries. We are skeptical that this would provide any better avenue of trade dispute resolution than the current American judicial system can provide.

Mr. Sterling: Another intriguing point that I have heard from time to time by those who would try to attack the agreement, as I read in many of the particular submissions from the Ontario government as to the unknown rather than dealing with actually what in fact is down in the agreement and

accepting it on good faith and going from there. That is why I, quite frankly, return to your response to my first question. I find it a little bit disconcerting in that most people who look at this in an objective form say it appears to give us some edge into the door in terms of a decision-making process with regard to future countervail and antidumping situations.

Can you explain to me how the Canadian government can control the value of the Canadian dollar to such an extent that it would have a significant impact on what the rest of the world saw the value of a Canadian dollar was worth?

Mr. Smith: I am not a monetary economist, but I will have a crack at answering your question. As long as we have a system of floating exchange rates in the world, I agree the basic values of currency are set by international payments, to do with trade, investment, dividend flows and other things. But, within those broad parameters, governments and central banks do play a role in currency values. I would cite for example the federal 1985 budget, where there was a negative reaction in international financial circles and the dollar was pushed very briefly below 70 cents and then rebounded to 70-71. That rebound, I think personally, had a great deal to do both with direct market intervention by the Bank of Canada and moral suasion exercised by perhaps the Minister of Finance for Canada and certainly the governor of the Bank of Canada at the time.

Within narrow parameters, the Bank of Canada or any central bank can play a role in adjusting the value of the currency. Up until, again economic history is pretty weak, but there was a time in this world when we had fixed exchange rates and those fixed exchange rates were operated and maintained by direct intervention of central banks to maintain them. There was no other way to do it.

I would further go on to say that if there was a major difference in interest rates between Canada and the United States, and Canada's interest rates were significantly higher than American rates, then it would be, I admit, difficult for any American to make the case that the Canadian dollar ought to be increased in the context of already high rates. But as interest rates between the two countries tend to come together or are only a very short distance apart, then we could well get a movement in the US to narrow the gap and pressure placed on the Canadian government and the monetary authorities, to increase the value of the dollar and they do have tools to do it.

Mr. Sterling: But you know that unless we control the outflow of capital, it is pretty near impossible for our governments to ever have an interest rate that is dramatically different than the American interest rate.

Mr. Smith: Again, in the broad sense, if the market today says the value of the Canadian dollar is 76 cents, or whatever it is, no government in Canada could make it 66 cents or 86 cents. But certainly by the exercise of policy in Ottawa, it could make it 77, 78 or 79 cents. There is flexibility in that.

Mr. Sterling: You really believe that is going to be challenged by the Americans as a subsidy to Canadians.

Mr. Smith: I say it is possible.

Mr. Chairman: I cannot hear you, Mr. Sterling.

Mr. Sterling: I say you really believe that is going to be challenged by the Americans as some form of subsidy to Canadian producers.

Mr. Smith: I say it is a possibility. I do not believe it has been challenged by the American government to date; it has certainly been challenged by Americans in certain interests.

Mr. Chairman: I certainly have heard it, I might say, from at least two American senators, and I think Mr. Mackenzie was present as well, but not from the government directly. Sorry to intervene.

Mr. Sterling: Thank you for the clarification.

Mr. Kozyra: Along the same line, you are not the first to suggest that fluctuations in the dollar and the difference between the Canadian and US dollar would have considerable impact, in fact perhaps much larger than this agreement. However, in my recollection, you are the first to draw such a clear connection in terms of the ability to influence. I am just wondering if you would pursue that a little bit further.

Are you suggesting then that with the agreement in place, the US would find it easier than it does now to influence these fluctuations or the gap and, as a result, since it has already been identified by just about all economists, no matter what position they have taken on free trade, that the position of the dollar is a major lever, does this agreement, in your opinion, make it easier to influence?

Mr. Smith: Conceivably. I raised attention to the dollar because the value of the dollar is so important to northern Ontario exports to the United States. It is almost the single thing. I hate to say there is one single thing, but it is certainly extremely important.

It is conceivable that in a Canada-US free trade agreement where the Canadian government has clearly undertaken to bond itself to the United States in a more formal way and therefore, in a sense, to try to co-operate a little more closely and to try to harmonize economic policies a little more closely in a general way, that you could have a situation arise. Let us assume for some reason there was more inflation in Canada than in the United States and it created downward pressure on the dollar and the downward pressure on the dollar was leading to more Canadian exports, it is quite conceivable that the American authorities would say: "Look, we are bound together in this agreement. We are not a common market, but we are moving in that direction. We have to follow policies that are co-ordinated and, quite frankly, we are a little concerned about your fiscal policy up there. We think you ought to tighten up. Maybe you ought raise taxes or cut your deficit or reduce your rate of inflation or something like that. If you do that, that will influence the value of the dollar." I would not be surprised if that could happen.

Similarly, various private interests in the United States could raise concerns and could launch actions of some sort. Right now, an American Democratic candidate, Gephardt, is making quite a line out to the relative value of a Hyundai in Korea and in the United States. I think his line is, "Well, since a K Car would sell for \$48,000 in Korea, we ought to charge \$48,000 for a Hyundai in the United States." Some of that is currency related. The Korean currency has been deflating, not inflating, relative to the American dollar, the way others have been.

I am not saying this is right around the corner. I am saying that when you bind yourself together with another country in a major economic document, then by implication you are making at least a kind of moral commitment to begin to co-ordinate economic policies a little more closely. It is conceivable that an action of some sort could be launched in the United States to say that the current differential is unfair and it should be rectified.

Mr. Kozyra: You touch on employment or unemployment in the north only indirectly in reference to industry, but not specifically. Any thoughts on that, how the agreement impacts on the employment or unemployment in the north?

1550

Mr. Smith: Not in a specific sense. I do not have a number to give you. I would say this. This agreement, it is my impression at least, was not sought by northern industries. The people at the Business Council on National Issues and the people who work for the Macdonald commission and so on formed kind of the origin of this initiative. I do not think northern Ontario industries were all that heavily represented. But now that the agreement has come along, a lot of the major northern businesses that made presentations to this committee are saying, "Well, we have sort of got free trade with the United States anyway, so why should we be against an agreement that has the words 'free trade' stamped on it?"

My own gut feel is that, with respect to the resource industry, taking aside the softwood lumber tax for the moment, the agreement would not have severe negative implications, since industry is already in a sense in that sort of position. The point I am trying to make, and it may be a little bit different to others, is it does not have any positive implications. At least we cannot see any major positive implications. It is kind of a status quo thing and that is it.

Mr. Kozyra: As a continuation of my last question, which really leads into this well, and we did not rehearse this, I sat through in Thunder Bay on the presentations to the cabinet subcommittee. About half of them came from the forest products industry--very strong endorsements of the free trade deal. But when questioned as to why they were so strongly in favour, it came down to basically what you just said. It was a protection of the status quo because they felt they already had a pretty good working arrangement and they were afraid that if some protection through an agreement such as this did not come in, the US protectionism or the move towards it would hurt them severely.

You touched on it indirectly, but perhaps you would wish to amplify on it. With what we do have now, is this going to provide that protection for them to help them maintain the status quo? In terms of jobs, they said they could see very minimal increases, if any, but it would protect--

Mr. Smith: I think some of the business people at least respond to what you might call the atmospherics of the situation. Free trade or something with that word in it is to them a good thing. They think they already have it. They are concerned about the trade act in the United States and they sort of feel, "Well, perhaps this is better than nothing." But when you get beyond that kind of rhetoric, I agree they seem to have no investment plans related to this. Just like us, they do not understand the new dispute resolution mechanism and they cannot provide any concrete evidence to suggest that it is going to be any better than the one we already have.

Mr. Kozyra: And we all were upset with the softwood lumber tax being enshrined, as you call it.

Mr. Smith: Nobody agrees with that.

Mr. Chairman: Thank you very much for your assistance. We appreciate your coming and making a statement to us publicly and answering questions. We will certainly take your representations into consideration when we do our report.

Is there any other business anyone wishes to discuss?

Mr. Pelissero: Tomorrow at 10 a.m.?

Mr. Chairman: Tomorrow at 10. Tomorrow at five o'clock, we will be discussing terms of reference that Mr. McLellan will have for us by then, which he has prepared. They are drafts with regard to retaining consultants on some areas.

Mr. Morin-Strom: Is it possible to look at that at the end of the morning session? I will not be here in the afternoon.

Mr. Chairman: The Liberals are having a caucus at noon, but I do not see any reason why others cannot informally look at the material by lunch hour. That might assist in speeding up deliberations at five. Is that what you wish?

Mr. Morin-Strom: I will not be here.

Mr. Chairman: In the afternoon?

Mr. Morin-Strom: No.

Mr. Chairman: The problem is there is a Liberal caucus at 12 noon.

Mr. Morin-Strom: It would certainly help to have the information in the morning so we can take a look at it.

Mr. Chairman: We will get it to you as soon as we physically can.

The committee adjourned at 3:55 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

THURSDAY, FEBRUARY 4, 1988

Morning Sitting



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)
Haggerty, Ray (Niagara South L)
Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Neumann, David E. (Brantford L)
Nixon, J. Bradford (York Mills L)
Pelissero, Harry E. (Lincoln L)
Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Ballinger, William G. (Durham-York L) for Mr. Neumann
Epp, Herbert A. (Waterloo North L) for Mr. J. B. Nixon
Fleet, David (High Park-Swansea L) for Mr. Kozyra

Clerk: Carrozza, Franco

Staff:

Anderson, Anne, Research Officer, Legislative Research Service
McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Ontario Federation of Agriculture:

Pyke, Brigid, President
Benson, William, Second Vice-President
George, Roger, First Vice-President

From the National Action Committee on the Status of Women:

Cohen, Marjorie, Co-Chairman, Employment Committee

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, February 4, 1988

The committee met at 10:08 a.m. in room 228.

PREBUDGET CONSULTATIONS

Mr. Chairman: You have in front of you an envelope, and I am just opening my envelope at the same time. Mr. Carrozza has taken the applicants for prebudget hearings and scheduled them.

As has just been pointed out, we do not technically yet have permission to sit at that time, having, I think, withdrawn an application to expand on it. We have placed our new application and simply have not heard a reply from the party whips, likely because they have not dealt with it yet.

Mr. McCague: I think they may have yesterday. Could we just ask the clerk to find out by noon hour whether it is approved or not?

Mr. Chairman: Good idea. Then we can discuss the schedule to see whether or not it is suitable.

Mr. Morin-Strom: On the issue of the prebudget consultations, is there room for additional names?

Mr. Chairman: If you want there to be.

Mr. Morin-Strom: You have not had a subcommittee look in detail at who is coming and who is not?

Mr. Chairman: No, this is merely a proposal.

Clerk of the Committee: These are all the individuals who have requested to appear. There are no more.

Mr. Morin-Strom: There is another one I would like to add to this. The Ontario Public Service Employees Union has indicated to me that it would very much like to be added. Given their role, I think we should attempt to accommodate them as well.

Mr. Chairman: I think that is already under way.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: All right, with great pleasure we have with us this morning the Ontario Federation of Agriculture. The president, Brigid Pyke, is here, as well as Roger George, first vice-president, Bill Benson, second vice-president, and Cecil Bradley, manager of research and communications.

I first heard Mrs. Pyke speak on this topic in Waterloo. I think Mr. Epp may have been there.

Mr. Epp: Great city.

Mr. Chairman: Great city. Early in the negotiations, I was quite impressed with what she had to say at that time. So we are delighted to have you with us and very interested in what your comments may be on the final document now that we have had it. We have your brief in front of us. Perhaps you could lead us through it and then be free for questions.

ONTARIO FEDERATION OF AGRICULTURE

Mrs. Pyke: Thank you, Mr. Chairman. We will not be reading the entire brief but we will speak to it. Have you had time to read it?

Mr. Chairman: Personally, I have not. I just received it this morning.

Mrs. Pyke: You just got it now? That is right too. I am sorry. You will be able to go over it in more detail later, but we will try to hit the highlights here.

You have introduced the members of the executive. For those of you who might not have met them, this is Roger George, the first vice; Bill Benson, on the other side; and Cecil Bradley, at the end. Our executive administrator, Joanne Sutherland, is seated behind us in the second row.

Starting on page 1, by way of introduction, we make two basic overall counts that cause us problems with the deal, the first one being that we believe national sovereignty will be compromised in a number of areas without tangible benefits being shown and that economic efficiency is the basic criterion being emphasized here, at the expense of stability, diversity and autonomy in Canada.

We point out, for those of you who are not as familiar with the federation, that we have just celebrated our 50th anniversary. We are 50 years old, in our present form since about 1970 and represent approximately 23,000 farm families.

Moving on to page 2, the policy position, we would like to outline that as far as the OFA is concerned--and in this respect we are in complete sync with our parent organization, the Canadian Federation of Agriculture--our position of what we wanted out of the deal is listed as one through eight there.

I will go over these because they are key: that a better dispute-handling mechanism be established; that more effective and fairer trading rules be developed; that we have clear definitions of what are countervailable financial assistance programs and more effective procedures for evaluating their impact or injury be developed. This was a lot of the work that we thought would be done in the two-year time period during the negotiations leading up to the deal.

Export subsidies. The overall objective would be that export subsidies would be markedly reduced or eliminated. This is bearing in mind that the United States has by far the more blatant form of export subsidy, by our reckoning. Canada would have to retain the right to establish and maintain distinctive and effective national agricultural policies; for example, our stabilization programs.

Our present marketing board structure and the ability to develop new ones as necessary would be maintained, complete with underpinnings. The

Canadian Wheat Board marketing system, with its ability to manage marketing and control imports, would have to be maintained; the program of seasonal horticultural tariffs continued; and surtaxes continue to be applicable to protect the industry in periods of serious distress.

That is basically the position we believe fairly represents what farmers thought they needed in this deal, having made general statements initially about the fact that, as farmers, we did not believe we had a lot to trade off agriculturally. There were not great gains to be made, with the possible exception of the red meat industry.

The position we have taken as of our convention is that we have reaffirmed the organization's support for liberalized trade. Farmers are traders. Fifty per cent of what we produce in Canada goes into export markets, only about 20 per cent of that historically into the US market, so we definitely know the value of trade on a world and bilateral basis. But we have rejected this particular trade deal as not meeting the basic requirements we have set out.

I would like to say a few words about the ministry assessment, as the Ontario Ministry of Agriculture and Food has provided your committee with its assessment. We have gone over that assessment, not to the extent of re-doing all the work, but we are certainly aware of the study and have spent some time on it. We believe it is a very fair and reasonable assessment of the deal as it affects Ontario agriculture as we know it. That is recognizing the fact that it is not possible for anybody, the Ontario Federation of Agriculture or the government, to determine what will be the processor response to it and what the downstream, 10-year or 20-year affect will be on industry. That part of the analysis is deficient. As I say, it cannot be anything else unless more detailed review is done on a sectoral basis out of the federal government, for instance.

We are not going to quibble with the estimated income loss, \$95 million, cited by the Ontario study, only to say that any loss of income for Ontario farmers, particularly now, is not appropriate. Again, I guess the final point there: the ministry's analysis does not fully incorporate the impact of the agreement on the processing sector. That is one of the biggest problems. I am sure you have heard lots about that. How are the processors going to react to this?

Mr. Chairman: They virtually admitted that to us, and indicated that they are concerned about that as well.

Mrs. Pyke: Sure. It is not a matter of finding fault. As I said, we could not have done any better. It is a matter of acknowledging that that is a big hole in the whole process here.

On page 4, for the benefit of other people who are going to be reading this brief, we recopied the ministry's little graph indicating the economic impacts of it on Ontario agriculture. You have seen that before.

If we could just move now to the dispute settlement mechanism, I think this is an area of great disappointment for our organization. Agriculture has been involved in some of these trade disputes and knows a little bit about the process. We point out here that the US has certainly made very great use of countervail and antidumping actions. According to one estimate, since 1980, US industry has filed 629 of these actions against their trading partners. Over the same period, Canada has filed 38 against the US, the European Community has filed six and Japan has initiated one.

The overall objective was to try to curb the capricious use of trade law. That was the objective of this deal, as far as we were concerned. The dispute settlement mechanism that is described in the legal text promises an imperceptible improvement on the handling of antidumping and countervail duties, but US trade remedy law stays. What has been replaced is the judicial review of that law.

To our knowledge we never took any great issue with the judicial review of the trade law. It was the trade law itself that was the problem. Now we have put in this bilateral panel and in addition to the deficiencies we see in there, we also have a more recent appeal process being set up to appeal the results out of the binational panel. So we are convinced at this point that we have taken one step ahead and two steps backwards as far as a binding dispute settling mechanism.

I think it is fair to say that the countervail and the discriminatory trade law that is present, this deal does not back that up. Quite the contrary, it does not even hold it static. The US, as far as we are concerned, under this deal still has the right to even add to that trade law. There is nothing here that exempts Canada from the effects of the omnibus trade bill or legislation that may be in the wings. Basically, all the binational panel can do is rule on whether each side has applied its own rules fairly; it cannot question the rules themselves. That is a distinct problem that we find with it.

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At the top of page 6, we would like to make just a few comments about energy. Again, farmers are very dependent on energy, having largely replaced the horse with fossil fuels. This is not just the fuel that is used on the farm but the fuel that goes into the fertilizer, etc.

Originally, we felt that we were going to have to share in the deal. We would not be able to have discriminatory pricing of Canadian energy and we would have to guarantee the proportional access. Once we had exported a product, the Americans would have proportional access to our supplies.

We note here our belief that articles 408 and 409 in the trade agreement preclude the possibility of preferential pricing or supplying of any product in the domestic market. We think those two sections are umbrella sections, that what we originally thought was going to happen just to energy is now going to happen to any good. We just raise that as an issue. We are concerned about that. Although you might feel it does not have a direct bearing on agriculture, it is a concern to farmers.

The investment sector: We are concerned that the process to evaluate and review takeover bids has been diluted somewhat. Apparently only 500 Canadian companies would potentially have to be reviewed if they were targets of takeover bids, as opposed to 7,000 today. I think that is significant, given the degree to which the processing industry and the people we as farmers sell to are concentrated. I do not know how many food processing companies would be in that top 500, but let us just say it is a real concern to farmers when they are trying to sell into a very concentrated system.

Harmonization: I mentioned this very briefly at the beginning. The agreement makes frequent reference to working towards harmonization of standards and regulations. Farmers are generally of the belief that product grading standards, aspects of plant and animal health regulations and pesticide availability and usage guidelines are tougher in Canada than in the

US. If this is not just a flattering assumption, what does cross-border harmonization imply?

We are very concerned about that process. The situation with alachlor or Lasso is a classic example of different input costs being set up in the two countries. I think all of this work has been left. We will be going into this deal on the promise that this work can be done effectively, and I think we should say that farmers are extremely sceptical about the chances of success of any real degree of harmonization.

If harmonization is achieved, it is certainly going to be of great concern to consumers, particularly in the agrifood sector, where they apparently demand the right to set different standards in Canada than in the US.

With that, I would like to ask Bill Benson to move into the next two sections of the brief, having to do with the situation regarding grains and oilseeds and the supply management sector.

Mr. Benson: Under "Grains and Oilseeds," on page 7, tariff elimination undermines the two-price wheat system, and the federal government has already announced its intention to dismantle the two-price wheat system and has not proposed the alternative financial adjustments for producers, despite the fact that many producers with fall wheat presently have their investments in their crops.

I was talking to a neighbour of mine the other day. He has 300 acres of red wheat. He figures that announcement means a loss of about \$30,000 for his operation as an individual farmer, and he would be just an average-sized farmer. To bring it down to the farm gate, there is a \$30,000 loss to an individual producer just by that announcement. The total loss for Ontario wheat producers is estimated between \$30 million and \$45 million, depending on what studies you look at.

Elimination of the domestic wheat price program will jeopardize the viability of many farm operations. The government's removal of the program at this point is a particularly galling thing because individual producers already have fall wheat in the ground. As well, that program, over the 20 years, has been a huge net benefit to the consuming public because for many years wheat was actually sold on the domestic market for less than the world price. We are listing \$469 million as a benefit during that period to consumers. It is only in recent years that the domestic price has been higher than the world price and a net benefit to producers.

In section B, we are also concerned with the very complicated formula to determine when protection can be applied against wheat, barley and oats. When support levels are equivalent, there is a deal. When support levels are not equivalent, then protection is allowed.

In section C, we are very concerned about how the deal addresses the whole export subsidy program. We have seen a list of subsidies, just approved by the Americans, on a whole list of agricultural products totalling \$90 million in export subsidies that they can use to put their products into every market in the world during this coming year. It seems unusual that the Americans would support in principle what they are putting on paper with our federal government and at the same time move in a very predatory way to put their products into every market in the world. It is estimated that they are depressing world prices by up to 50 per cent at the present time with their programs.

Under "Supply Management Products and Commodities, on page 8, We are participating in trade update meetings in Ottawa. I have attended two in the last month where our organization and other organizations in the Ontario Federation of Agriculture were able to meet with the top agricultural negotiators, that is, Mike Gifford, Terry Norman, and the Department of External Affairs. We have had two meetings and all the marketing boards, our organization, the Canadian Horticultural Council and other commodities are involved in those meetings.

Many of the concerns we express on page 8 are the exact concerns of the producers in those commodities from Ontario and right across the country. For example, producers in supply management commodities are very concerned about section A. They feel the competitive pressures are going to come from major processors here when they will demand to buy the raw product at the same price in this market as their competitors south of the border can buy the raw product in the US.

Of course, that is not true presently because our pricing reflects the higher cost of Canadian production and our marketing boards are pricing based on Canadian costs of production. The same applies to the two-priced wheat system at the present time where the domestic price is higher than the world price.

The producers of those commodities are also concerned about the increase in quotas against poultry commodities. Really, they are giving up an additional amount of Canadian market to US imports in those cases. As you all know, the federal minister has announced a number of dairy products on the import control list, but he has not detailed when and at what level these will be applied. So all the details are not available to the commodities yet on that announcement that was made last week.

You all realize that the only way supply management marketing boards have been protected by the Canada-US trade deal is by referring to the GATT article XI in the legal text. You will see that in article 710 of the agreement. That is the only way they protected the supply management system in this country.

1030

It is ironic, but we have confirmation now that this very GATT article XI has been placed on the negotiating table in the GATT talks that are currently under way. All those provisions are on the negotiating table and were put there by the Americans. That has to be an ironic position for that country to be taking and is bound to be tremendously controversial.

On section E, the supply management commodities are also very concerned about getting clarification under paragraph 701.3 of the Canada-US deal, which they feel at this time could threaten their export surplus removal programs. Under that section, it limits their ability to sell the product cheaper in the US than they sell in the domestic market. At the present moment, all the supply management commodities on those trade update meetings are asking for clarification because they feel their surplus removal programs are being challenged by that section.

That is all we have on those sections.

Mr. George: The livestock sector is one of the areas where producers feel there is opportunity for gain. I am sure you have seen in the Ministry of Agriculture and Food estimates that \$18 million of net gain could conceivably be there for producers of beef and pork.

Just to put that \$18 million in perspective, if we said that there were 18,000 livestock producers--and there are more than that, but just for easy mathematics--that would be \$1,000 a piece. That is one steer. So it is not really a tremendous gain in dollars. However, having said that, I think the main goal of the livestock industry was to obtain or guarantee market access. With exclusion from each country's meat imports act, this access to market could well have been gained.

Brigid has indicated, though, that we are still very uncomfortable with the dispute settling mechanism and the opportunity for countervail still exists. We would only hope that as this deal evolves, the dispute settling mechanism will evolve with it to be far more useful.

Pork producers along with beef producers also feel that there is an opportunity for gain.

We would caution, however, that in any export situation the value of the Canadian dollar vis-à-vis the American dollar will be critical. Again, to give an example, about a year or so ago the dollar was trading at 72 cents. Today it is trading at about 78.5 cents. On a finished steer going to the United States, that is about the equivalent of \$70 less income for that farmer, if we assume that the basic livestock price is the same. You can see that any gain in the strength of the Canadian dollar vis-à-vis the American dollar could indeed temper the perceived gain to the livestock industry.

Sections D and E are good inasmuch as the inspection standards will be beneficial, not only applied to health and safety but also to other facilities, and the restrictions on inspection at the border have been relaxed, so that is all positive stuff for livestock export.

Can we move on to page 10 on fruit and vegetables? This sector is in some danger. While we agree that certain sectors will indeed find improved markets, there are some very serious questions for vegetable and fruit producers. We have some very grave reservations about the ability of the snapback provision to trigger and be beneficial. Some people feel it may work in only three to five per cent of cases. For produce with a short marketing season, we would really question whether the snapback provision can operate quickly enough to prevent any serious distortion.

Section B raises some questions that Brigid has already alluded to around the food processing industry. There is a real danger, we feel, that the multinationals will have to take some decisions on whether to continue to operate in this country or maybe they will attempt to gain access to raw materials at prices that are more competitive with the Americans. That will obviously have an impact on returns to producers.

We are really concerned also that, with the elimination of tariffs, there are going to be areas of the province, Niagara in particular, where there is going to be a shrinking amount of agricultural land. This raises a question on the degree of agricultural credit. Already the lending institutions are obviously analysing the risk, not only to agriculture but to all sectors of industry. We are getting messages already that certain sectors

of our industry are being singled out and producers are being squeezed on credit in anticipation of the phase-in of the reduction of tariffs. While we have a phase-in on the reduction of tariffs, we feel there will be no phase-in on the bank's application of more stringent credit requirements.

Turning to page 11, we again in section E talk about the grape producers suffering probably the biggest single impact. We are all aware of what is likely to happen in the wine industry. That is complicated even further by the negotiations currently under way in the GATT and their application of provincial markups. Certainly, we feel the Canadian and Ontario wine industries have not gained anything at all and we do not think there will be any improved access. Probably the opportunities for our wines to penetrate markets in the United States will be very limited, given the aggressive marketing practices of the American wine companies and their particular system of distribution there.

In a lot of these regards, the OFA will be calling for immediate compensation and adjustment from levels of government to help the sectors that have received or will receive damage under this deal.

I would now like to hand it back to Mrs. Pyke to give her summary.

Mrs. Pyke: Just by way of summary, on page 12, going down the page a bit, the two salient questions are, "What are we going to do about the deal?" we being the OFA, and, "What do we recommend to the provincial Legislature committee?"

As far as what we are going to do about the deal, we have outlined four points here that will give you an indication.

1. There is no doubt in our mind that it is going to be a major issue for farmers in the next federal election. At our board meeting later on this month, there will in all likelihood be a resolution asking that the federation move to actively call for an election or a referendum on this issue. I do not know how that will turn out, but I suspect that is what will happen. We will be among those calling for people to be able to have a vote on this, one way or another.

2. The agreement is going to have to be implemented by legislation, and at every legislative initiative that gives effect to the agreement, we will be urging our members to lobby their MPs and MPPs to ensure that agriculture is considered.

3. The agreement is not the only policy dimension in agriculture. Our organization will be pressing for compensating changes in other areas and compensation, as Mr. George has just said.

4. We will also continue to try to act as a forum for farmers to pool information in the various commodity boards and what not so we can develop some overall view of what is happening and develop recommendations for both levels of government, which is the role we have been attempting to play right now.

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Turning to the second question, the advice to the committee, we recommend that more resources be provided for the planning and implementation

of industry adjustment programs, particularly for the hardest-hit commodities--wheat, grapes, vegetables and tender fruit. It will not be enough for the province simply to point its finger towards Ottawa.

To continue to work to clarify the jurisdictional aspects of the agreement is something we are acutely interested in, as are many other people, the exact nature of the legality of the assault that is being made. Does the federal government have the right, in other words, to force implementation of this deal on all the provinces? I know that is one of the key issues that are in contention. Suffice to say we are desperately interested in that question too. Agriculture is very much a split jurisdiction between the federal government and the provinces.

We would like this committee, and the Ontario government certainly, to maintain a critical stance on the bilateral agreement and continue to seek to influence the final effect, as opposed to assuming that this is as good as it gets. We would like confirmation and reconfirmation of a commitment to orderly marketing of agricultural products. Suffice to say the marketing systems we have in place are heavily supported by producers, have evolved over a period of time and are there for good reasons. We are very nervous about the upcoming challenge at the GATT level. Having seen the process develop at the bilateral level, our imaginations are free to run wild as to what all can go wrong at the GATT level.

Again, on recommendation v, "to press for resolution of the countervailable subsidy problem, the basic challenge to fair trade in agricultural commodities," this was the \$64,000 question, where all our programs are, everything from feed freight assistance to the tripartite stabilization programs. We have seen all that attacked in the pork countervail case and the big question is: "Where do we stand? What is a countervailable subsidy?"

We believe we can build a good case for many of the systems in Canada not being countervailable, but in any event, this work was to have been done, in our view, before we signed into any agreement. Now it is being put off for a five- or seven-year period and will by definition, in our view, be overshadowed by the same type of work being done at the GATT level.

I think that fairly summarizes our major concerns. We are going to continue to work. This is not an exhaustive analysis, obviously, and we, like many other groups, will continue to try to get an even more comprehensive evaluation of the deal as time goes on. That is about the way we see things right now. We would be more than happy to answer any questions or account for any of the statements we have made in this brief.

Mr. Chairman: That was a very thorough sector-by-sector analysis of your concerns, and the summary will help us, I am sure, when we are actually looking at the recommendations we want to make.

Mr. Mackenzie: I would like to comment on the brief that you have presented to us in terms, once again, of laying out so clearly the problems you are facing and the questions you have. In my opinion, it is the only brief I have seen that is as specific--admitting my biases--as a brief we had from the United Steelworkers of America yesterday, which specifically laid out their concerns point by point. You have done the same thing here and, I think, very effectively. If there is any difference between your brief and theirs, it is that they were probably a little more positive on the need to stop this

deal in itself, and they made some specific recommendations that could very well be incorporated into a report this committee might make.

I notice you have dealt with energy, dispute settlement, services, harmonization and, what I was initially going to ask you about, the five- to seven-year period that we have to wait to find out just exactly what are, in effect, subsidies. I am wondering, because you have not really dealt with them, if the fact that we may keep them, but some of the bargaining chips that may lose some of the other points could be some of the social matters or social programs or social costs that are broader than either agriculture or trade unionism but cover all of us, and if the fact that we have not achieved an answer or do not know just what are going to be considered subsidies in itself is reason to have grave doubts about proceeding with this deal.

Mrs. Pyke: It is very difficult. I had the opportunity to hear Prime Minister Mulroney in Kingston a week ago. I listened very carefully to his comments on free trade. He made a rather sweeping statement that this does not affect our sovereignty, period. I think, agriculturally, it does not right now, but come January 2, 1988, it sure as hell will, when we start into this process of what is a countervailable subsidy.

Taking the stabilization program as a very key point, we look at that program as an insurance policy. When the market price gets below a certain level and starts causing farmers to lose great amounts of money, that stabilization program kicks in. We feel as long as it is fixed--takes the market price into consideration, not our cost of production--that no farmer can sort of produce to it, figure out what the market price might be and what the stabilization price is going to be and produce to it, and that is the key. We feel a program is not countervailable if it is a program that affects the farmer's income after the fact and does not cause him to produce more product that could subsequently be put into the US.

Those are very, very key arguments, and if we lose the right to support farmers' income in this country or to involve ourselves in programs, for instance, that support a cattle industry or a beef or pork industry in the Maritimes, any of those types of regional development programs, which agriculture has used for decades, are going to fall under the gun. That certainly does affect our national sovereignty and our ability to make those decisions, provincially and federally.

That work has not been done, so I suppose in the strictly literal sense a person could say, "We have not touched Canadian sovereignty." But that is the exact work of that committee, to start touching sovereignty, as of January 2, 1988, if this deal comes into place. To be fair, that is honestly what we thought was going to be done from the time free trade got to be on the agenda. We thought that would be done, that Reisman would say, "We have decided that stabilization is this, and no, as in the pork countervail case, the tax system here in Ontario was not an issue, but this might be." We thought all that work would be done, and now here we are playing our cards in the hope that that work can be done. To us, that is an unacceptable situation.

Mr. Mackenzie: There are two or three things I would like to raise, but I know others want to get on. This really flows from what we have just been discussing, and this is where we do get into a fuss, the dispute settling mechanism that some of us think is absolutely essential to this agreement.

There are two very short paragraphs in the presentation that was made yesterday. I sense that the concern you have raised, that we may even have a worse process now, ties in with this, but I just wanted to get your reaction to it. It asks the question:

"Q. Does it resolve disputes?

"A. No. It is merely a substitute for judicial review of administrative decisions, a review that is so limited in scope that it must follow previously established US practices and precedents, but US practices and precedents were what the fuss was all about anyway.

"Q. Is Canada better off with it than without it?

"A. No. Indeed, by implicitly accepting the legitimacy of US trade laws to which we have previously objected and by forgoing the much more broadly based GATT appeal process, the agreement may leave us worse off."

Would you be in agreement with that?

Mrs. Pyke: Essentially, yes. That is what we say in our brief, and I think the brief that came out of the Ministry of Agriculture and Food said essentially the same thing. If I understand the role of the binational panel, the process goes through the usual process in the US; if, as a result of those hearings, a decision is made and a party is dissatisfied, it goes to the binational panel. The binational panel does have a role to try to harmonize those things as we go along and develop. In other words, if the two parties which are arguing, Canada and the US, can come up with better trade law to replace what we have, the binational panel is supposed to foster the development of that mutually better trade law, but that is--

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Mr. Mackenzie: It does not deal with the complaint and solve it.

Mrs. Pyke: No, it does not deal with that issue right there. That is pie in the sky. You do not know how successful they are going to be at that, at developing this better trade law.

When they talk about leap of faith, that is exactly what this is. This is a very large leap of faith. Y

Mr. Mackenzie: I guess what I am really saying is that there are more high-profile or more easily understood concerns that Canadians raise and that you have raised in your brief. That in itself, it seems to me, should be enough to say there is no way this country can accept this particular deal because we literally have not got anything--

Mrs. Pyke: It was a big requirement for us to have better dispute settlement. The present system is very expensive, very time-consuming and inherently unfair. That is what we want to change. Yes, that is a major area of disappointment.

Mr. Chairman: Just somewhat supplementary to what Mr. Mackenzie is talking about. In talking about the dispute settlement mechanism, you mentioned the figure of 629 countervail actions brought by the United States against its trading partners. You do not mention that the one successful

action against the United States was the Ontario Corn Producers' Association action in 1987.

Mrs. Pyke: That was an oversight.

Mr. Chairman: It brought great consternation to the Americans and, to many Americans. It was the first time they became aware of negotiations, etc. Am I correct in my understanding that the corn producers, in succeeding, priced themselves a little too high and priced themselves out of the market and that the resultant year for corn producers was not a good one? I am gathering that from press reports I have read and I hope I am on the right track.

Mrs. Pyke: I think that would not be an accurate conclusion to come to.

Mr. Chairman: It would not be an accurate conclusion?

Mrs. Pyke: No, out of that situation, but the corn producers are members of our organization and we will certainly take it upon ourselves to get an analysis of the situation from them and get it down to your committee, if you have a particular interest in that.

I think that would be preferable to our trying to deal with it, because it is a technical thing. Off the top of my head, I would say that would be an unfair conclusion to draw, that it made things worse or they priced themselves out of the market. Having said that, there is always a price to pay for standing up for your rights, and that is certainly what the corn producers did.

Mr. Chairman: The argument is that countervail has essentially been forced on the GATT by the United States. They use it to their benefit and the one time we tried to use it against them, maybe it was not terribly beneficial. But I will withdraw that suggestion.

I have Mr. Ferraro, Mr. McCague and Mr. Villeneuve.

Mr. Ferraro: Thank you, Mr. Chairman, and let me thank the Ontario Federation of Agriculture for a very informative presentation.

I have a couple of questions, Mrs. Pyke. I read your concerns and the concerns of a lot of the agricultural sector, specifically in Ontario, and I read the conclusions in the synopsis of the trade agreement put out by the federal government, and I will quote, "Canada's farmers will make real gains." The last one is, "At the same time, marketing systems, farm income stabilization and price support programs remain unimpaired by the agreement." There is obviously a big difference of opinion.

I understand Ontario's perspective and, to some degree, Quebec's. Could you clarify for me and perhaps some members of the committee in a general way, if you will, what the national consensus is from an agricultural perspective? I know the beef producers have a different opinion.

Mrs. Pyke: Yes, red meat. One of the basic things that we said from the very beginning was that agriculture cannot be dealt with across the board. It is composed of different sectors and there are regional differences. It is just impossible to make any sweeping generalizations about agriculture.

Generally speaking, we came to a consensus to the extent that our basic position was--and this is very, very simplified--that supply management works. Do not muck it up and do not destroy the underpinnings, which are the tariff and the import control list, which is what has happened.

In horticulture, be very careful. We are farming north of the 49th parallel here, and most of their crops come on before ours are thinking of coming on. There is a time lapse there. We have a very modest degree of protection in the horticulture sector. We have been negotiating with the Americans over a period of three decades on these tariff issues. The general approach there was that we should continue on a sort of sectoral basis, and if both sides wanted the tariff on mushrooms to disappear, so be it. So the horticultural sector was cautious. Some saw a gain, some did not, but it was a sort of cautious crop-by-crop approach.

In grains, our markets are by far and away on world markets. The amount of basic grains that go into the United States is negligible, but grain essentially is priced on a world market right now. There was concern about the two-price wheat system. As we pointed out, over the 20-year period since 1968, that has been generally much more in favour of the consumer in Canada, who tends to forget now when his bread prices were kept cheap at farmers' expense. So we said: "Don't screw up the two-price wheat system. The Ontario Wheat Producers' Marketing Board is doing a good job. Our markets are offshore."

Mr. Ferraro: Can I ask a second question just at that point?

Mrs. Pyke: Sure.

Mr. Ferraro: Excuse me, because you are right at that--I am sorry for interrupting.

Mrs. Pyke: That just about sums up the set, the final one being red meat, security of access, better dispute settling mechanism. Those components are what made up the agriculture, and that is as good as you are going to get. You are never going to get, "The free trade agreement should be totally trashed." You are never going to get that much consensus.

Mr. Ferraro: That sounds like a typical meeting in the House for all the politicians.

Mrs. Pyke: What can you do?

Mr. Ferraro: That is right. Thank you for that. But my question, and perhaps a more interesting question that I have, pertains exactly to the point that you made that the consumers have benefited with the two-price wheat system. I found your statistics very informative: \$469 million to the benefit of the consumers, and the farmers recently in those areas have benefited only to the tune of \$3 million roughly.

Mrs. Pyke: Yes, that is a cumulative of--

Mr. Ferraro: You can tell I am not a farmer. That is why I am asking you these questions that probably require a full week to answer. What is the net benefit, if you will, from marketing boards or supply management, to the consumer in Ontario? Do we know those figures?

Mrs. Pyke: No, we do not know those figures. People are trying to guess those figures right now as part of the GATT negotiations of the 92 members of GATT. They are trying to put in place a system that quantifies everything from assistance to the effect of the marketing boards, to the interest rate assistance--every single thing that affects policy decisions that affect farmers--trying to put a price on it.

Now, it is a very difficult thing to do, to say: "If we didn't have marketing boards, what would the price to consumers be? What is the difference?" There are so many factors involved in that. But the basic assumption that economists sometimes make that we disagree with is that if we did not have marketing boards, we would be able to buy all the foodstuff we need at the world price, at the dumped, depressed price. That is a fallacy, the idea that if we do not have a peach industry and we do not have a fruit and vegetable industry, somebody else is going to give us a deal.

This is one of the key fallacies in this agreement. We take great exception to the idea that consumers are going to have a smaller food bill as a result of this agriculturally, because the idea that we can eradicate or damage an industry here in Canada and the Americans are going to give us some kind of deal--

Mr. Ferraro: Even though you have reinforced that argument from your statistics for the grain section. You really have--to a degree.

Mr. Benson: I would just like to comment on part of your question where you were talking about what other parts of Canada say in agriculture. At the trade update meeting last week, the Union des producteurs agricoles made its presentation to all the agriculture negotiators. If you compare its presentation in Ottawa last week to ours, the concerns would be almost identical. Every point and every concern was basically the same as the concerns we are making here in Ontario. You do not get that impression just reading the newspapers as compared to the Quebec government's present stance.

Mr. Ferraro: I guess the last question I have, Mr. Chairman--thank you, Mrs. Pyke and gentlemen--refers to the food processing industry. I guess really the question is that they are saying the marketing boards are there and they are not touched, but I totally agree, and anybody who is in business will agree, that if you are uncompetitive, the food processor is going to go where he can make the best buck. I do not think there is anything wrong with that from a business standpoint.

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During this hiatus, if you will, or this period of confusion of trying to find out what a subsidy is, finding out whether we have got to implement and all the rest of it--and if we do not, what are you going to replace it with?--a food processor would really be absolutely nuts to expand or come to Canada, especially when one considers the fluctuation of the valuation of the buck. He would probably be better off to go to one of the border states, would he not?

Mr. Ferraro: He has got the best of both worlds.

Mrs. Pyke: I do not know all the types of decisions that impact on a processor. I am not a processor, so I do not know what all is going on in their minds. I do know that they have a tendency, I would imagine like farmers, to think in terms of five and 10-year blocks. They are going to be

able to see the writing on the wall and make a decision now, so you do not phase those types of decisions. There probably will be more of an upfront reaction than is generally acknowledged in this type of decision.

The food processing industry is heavily owned outright by American companies right now. I would think that if they are locked into a position where they have to buy for a number of years out of a higher-priced Canadian supply management-type system and sell head to head with no tariffs to their American counterparts, there is going to be a great tendency to consider relocating in the northern US. I do not know why.

Mr. Ferraro: I think that is a tremendous inevitability.

Mrs. Pyke: That is a definite problem. Having said that, it sets up a system where, as the food processors, they scream, "You have to equalize our costs of production if we are going to do business." That is the exact argument that Canadian farmers have, and that is one of the reasons we set up the supply management system. We farm here in Canada with labour regulations, workers' compensation, made-in-Canada interest rates and made-in-Canada fuel costs. We farm and work in Canada and we cannot pick up our farm and cart it over into northern New York State.

We are stuck here, and I think that is what leads to this continentalism that we are talking about and this lack of sovereignty, because the farmers are going to start lobbying. If they have Lasso in the states, we have Lasso here because we are not spraying something that costs another \$8 an acre on our crops and stay competitive. If they have Okayed something to keep the worms out of onions, you had better give it to us up here. If they are not paying \$5.84 per \$100 for workers' compensation packing chickens in Georgia, you make sure we are not paying that up here. We have already got the weather and the fact that we are on the wrong half of the continent to farm for starters. How are you going to equalize our costs of production? That is not being done. We are equalizing the end product and we are not equalizing our costs of production as farmers.

Mr. Ferraro: And it is exacerbated when the currency gap narrows.

Mr. Mackenzie: The heaters are all at the other end of the field, as you were told yesterday.

Mrs. Pyke: Here you have the bankers all ready. You have a report out of the Bank of Nova Scotia. We have the report right here. They just chuck this stuff into their computers and figure out which sectors of the economy, agriculture, and which sectors within agriculture, are hard hit, and they start winding down their credit. The guy goes in and wants \$500,000 for a barn. Well, you are not going to do that.

Mr. Chairman: This is getting good. It is 11 o'clock, though. Mr. McCague, very quickly.

Mr. McCague: Mrs. Pyke and gentlemen, I fully appreciate the balancing act that you have to do here among your various interest groups, the two conclusions from the 1988 convention where you reaffirm your support for liberalized trade, yet reject this agreement. I presume that is the reason that, in your summary and in the two questions that you ask, you really are assuming that this deal is going to go through.

Mrs. Pyke: That is going a bit far, really. Anybody with any money to bet would bet on this deal going through, but--

Mr. McCague: I am surprised.

Mrs. Pyke: If I could just say, people did not think we would be able to get reconsideration by Mr. Wilson on his tax reforms for farmers either, and we got that, so we always live in hope that something will develop.

Mr. McCague: I am surprised that Mr. Mackenzie did not raise this point because he has done so on other occasions, but I think careful scrutiny of your four and five points on the two questions would indicate that you are leaning towards supporting the agreement, rather than suggesting, as some have, that it be ripped up. You do not have to answer that question.

Mrs. Pyke: I would love to. Au contraire, we would love to answer that.

Mr. McCague: You are sitting in the middle there; be careful.

Mrs. Pyke: We are leaning the other way, against this deal.

On the question of ripping it up, I was quoted as saying I thought that was bordering on irresponsibility to say we can rip it up. The context in which I said that was that it is foolish to go into this deal thinking that if we do not like it, we can get out, or that it is all right for Canadians to take this on saying, "If it doesn't work out three years from now, we can get out." Any move to get out is going to invite retaliation, it is going to make things worse than they are now, it is going to invite increased protectionism and it is going to be very costly. Already there will be shifts in trade patterns, shifts in business decisions and you cannot recoup.

When I speak to farmers, I say it is as foolish as a person marrying into a farm family and readjusting, with our new Family Law Act, the management of the farm and the partnership agreement, on the assumption that if we do not like it, we can get out two years from now. That is devastating.

Mr. McCague: And give him the back 50.

Mrs. Pyke: That is right. It would be just as inadvisable to do that as it would be to get into this thing. In other words, if we get into this, we had better be very sure about what we are getting into and very sure that there is a commitment to stick with it and make it work.

Having said that, I would say we are leaning far the other way, that it is very inadvisable to get into this agreement.

Mr. McCague: I guess one of the problems I believe the committee has, but a lot of the committee members would not believe this, is that we are getting a lot of "What if we do this?" but we are not getting any of "What if we do not do this?" I will not necessarily ask you to comment on that.

When were the objectives that you start off your brief with arrived at with the Canadian Federation of Agriculture?

Mrs. Pyke: They were arrived at when the subject first began to be discussed, which was after the federal election, incidentally. When it became

an agenda item, the first thing that happened was the feds landed into CFA and put out the word among the farm community, "If we did some kind of free trade deal with the United States, what would happen to your industry?"

That immediately threw everybody into a tizzy, understandably; our organizations are, for the larger part, producer funded. We have \$177,000 in our research department at OFA. You can imagine how far that goes to try to decide what is going to happen on a sector-by-sector basis across the whole country. There is no possible way.

We immediately went back to the government and said: "Where's your homework? You are contemplating a free trade agreement. Give us the sector-by-sector analysis of what type of deal you are contemplating and what will be the cost and quantify the opportunities or the potential benefits." None of that work has been done.

Consequently, to varying degrees, pork producers, asparagus growers, what have you, everybody has been scrambling around trying to say "What if," not knowing what would be in the deal. It has been a hopeless situation from the start. We have nothing good to say about the process and it has been very debilitating for the agricultural industry to try to come up with the answers.

Mr. Chairman: I am going to have to give my apologies to Mr. Villeneuve and Mr. Fleet because it is after 11 o'clock and we have another witness waiting.

I do appreciate your presentation and also the conversations that have been going on. They have been very edifying and we are obviously going to take your presentation into careful consideration in our report to the Legislature.

Mrs. Pyke: Thank you very much. Likewise, we will watch for the committee's report with interest.

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Mr. Chairman: The next witness is on behalf of the National Action Committee on the Status of Women, Marjorie Cohen.

Marjorie Cohen is the chairperson of the employment committee of the National Action Committee on the Status of Women. Welcome to our committee. Do you have any copies of a presentation you wish to have distributed?

Ms. Cohen: I am sorry. I do not have a written brief. You must understand that the national action committee is a volunteer organization. All of the speaking we do is during time when we take time off from our other jobs to do it, so it is very difficult to have written briefs for every government committee we appear before.

Mr. Chairman: Even less than the 177,000 that the Ontario Federation of Agriculture had. Perhaps you could just give us your statement that you wish to impress upon us and then you can entertain some questions.

NATIONAL ACTION COMMITTEE ON THE STATUS OF WOMEN

Ms. Cohen: I do speak on this a lot, so I have a great deal to say about it, but it is not in a written form you can follow while I am speaking. I am Marjorie Cohen. I am an economist, a professor at the Ontario Institute

for Studies in Education. I am co-chairperson of the employment committee for the National Action Committee on the Status of Women.

You have probably heard of the national action committee. We are a national organization which represents over 550 women's organizations in Canada and these organizations generally are concerned about improving conditions for women in Canada.

NAC has taken a very active role in opposing free trade for the past two years. In our last two annual meetings, we have had unanimous resolutions opposed to this particular free trade deal. We also are taking part in broad-based coalitions across the country against free trade. These coalitions include women's groups, immigrant groups, labour groups, the unemployed, cultural groups, farm groups, all across the country.

Women across Canada have lined up pretty much against free trade. You may be aware that there is a very definite gender gap in this issue, at least in the polls. This is one time when the feminist movement is quite proud of the gender gap. We are not often, but in this case it seems to be working well. There very good reasons why women are lining up against this issue.

Essentially, we have never seen the raw power of the marketplace, that is, leaving things to business itself, as serving women well, yet this is what this free trade deal is moving towards. Women have worked long and hard to have the most unjust and discriminatory features of the market curtailed and it is very important that this be done by government. What we see is that all of the things we have worked for and achieved in the last 15 years are in jeopardy because of this free trade deal.

What I want to talk about today is the effect we feel it will have on women. We feel it will increase women's unemployment; that it will confine women's work to an even more narrow range of occupations; that it will adversely affect women's ability to pursue better working conditions through unionization; that it will accentuate the wage gap between males and females; that it will inhibit the effective use of social policies to correct labour market inequalities; and, also, that it will affect universality and access to our social programs. I want to spend some time on that because I think, generally, people do not understand just how much they will be affected.

First, I will talk about job loss, because it is usually the easiest one to see. The important issue here, of course, is going to be tariff reduction. What has happened is that some tariffs are coming off immediately, some within five years and some staged over a 10-year period, but as you are probably aware, in the areas where we have tariffs, the tariff rate in Canada is about twice that in the US.

During the whole situation of negotiations, it was expected by almost everyone that Canada would have a longer period of time to reduce tariffs. This has not happened. They are coming off at the same rate, so what this means, essentially, is that we are going to have a much tougher time here. The industries which are going to be faced with tariff reductions and import competition are going to be faced with a tougher time simply because we have had higher tariff protection in the past.

In Ontario, by and large, the concern on job loss in manufacturing has tended to focus on the auto industry. While it is vital that the auto industry be protected, there are other manufacturing industries, particularly those

where women are concentrated, which will suffer. These are, in particular, food processing, textiles and clothing, leather products, electronic and electrical products and other consumer goods as well.

Altogether, these industries employ about 75,000 women in Ontario. In fact, in all of these industries Ontario accounts for a disproportionate number of women who are working in Canada in these industries. We employ 70 per cent of Canadian women in electronics and electrical production, 60 per cent of all women in leather industries, 45 per cent in textiles, 40 per cent in food processing and 30 per cent in clothing.

The federal government tends to want to label some of these industries, particularly textiles and sometimes parts of the clothing industry, as sunset industries; that is, it create the notion that these industries do not deserve to survive. But industries like textiles and clothing are absolutely critical to the success of our economy. These industries alone--textiles and clothing--are the largest industrial employers in Canada. They account for about 12 per cent of all industrial employment in Canada and they account for seven per cent of our total national income. You can imagine what happens if you decrease your economic performance by seven per cent. What you have is a depression. If we are not careful about what happens to these industries, we will have a very tough time in Canada.

Right now, not a large proportion of women are engaged in the manufacturing sector; only 12 per cent of the total female labour force is in this sector. But what we see happening is that as jobs are lost in manufacturing and reorganization occurs, an even smaller proportion of the female labour force will be involved in manufacturing; that is, we will be even more concentrated in the service sector of the economy. The problem with this is that women have been trying to have access to nontraditional jobs in the manufacturing sector, and when you have job loss in this sector, the possibility of women moving into nontraditional jobs is very remote.

What we also have to think about is who is going to be hurt in this. Essentially, it is women who will not be able to find employment in other areas. First of all, it is not clear where employment is going to expand, if it will at all. The government keeps talking about high-tech industry. Canada is not a major exporter of high technology. We do not perform very well in this area, except in limited industries, so the possibilities of finding jobs in these other areas for women who have the kind of labour market experiences that women in the manufacturing sector have are pretty remote.

Certainly, we expect to see job loss for women in the agricultural sector too. I will not spend time on this, although it has been of great concern to the national action committee, essentially because you have heard a great deal about the effect of this from the previous presentation. Women who are farming alone tend to be in the industries which are most vulnerable, that is, in the feather industry, the dairy industry or fruit and vegetable production. These are the industries which are fully expected to be most hit in the agricultural sector because of the free trade agreement.

With regard to working women, I do not want to focus only on job loss because I think the major issue for working women is going to be what happens to wages and the working conditions that we face. We have fought very hard in the last 15 years to improve wages and working conditions for women and we have been somewhat successful.

However, I think what we can expect from this is tremendous pressure on the part of business, as it is faced with increased competition, to keep wages from rising and to work their labour force harder. I think the adjustment that workers are expected to maintain as a result of the free trade agreement is really a kind of blackmail. What we expect is that workers will be told that if we do not accept the more competitive conditions of the market, we will lose our jobs altogether.

The previous speaker spoke about the proportion of foreign ownership in the food processing industry. This is true in almost all of our manufacturing industries. There is a large degree of foreign ownership or, if there is not foreign ownership, at least there is the ability to move capital to other parts of the world in order to get lower rates of wages in particular. This is a tremendous threat to workers in this country. So we cannot see the interest of industry as essentially being identical with the interest of workers in the free trade issue.

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What we are particularly worried about is that as firms face stiffer competition here from US producers, they will be much more likely to fight harder for concessions in union contracts. We also feel they will fight any kind of improved labour legislation, and they may even fight to have existing legislation rolled back. This is not an unusual kind of feature, because we are used to combatting that over and over again.

I will give you an idea of what kind of competition some of these firms can expect. Some of our major competition in the United States comes from states which have no minimum wage at all. There are nine states in the United States which have no minimum wage. This is quite amazing, and most Canadians are not aware of that. Some of these states actually border on Mexico and do have illegal immigrants working, who are tremendously exploited. It is very difficult for Canadian firms to combat this kind of issue.

There are 28 states in the United States which are right-to-work states. What this means essentially is that these states have really made conditions very difficult for trade unions to survive. As a result we have seen, since the Reagan administration has taken power, very concerted efforts against trade unions. This affects women in very important ways, because it is through organization, through solidarity in the workplace, that women have been able to make substantial gains in Canada. In the United States, only about 15 per cent of the labour force is unionized. When you compare this, it is more than twice that in Canada.

Of course, our competition with the United States in the manufacturing sector is quite serious, but I have been rushing through the section on manufacturing essentially because I think these issues are fairly well covered.

I want to focus on an issue which is very rarely raised, although I think it is the most critical issue in the whole agreement, and that is free trade in services. I feel the advantage the United States has got, the concessions it has got from Canada in services is the single most important victory of the United States in this whole free trade agreement.

This is the first time in the history of the universe that there has been an international, comprehensive free trade agreement in services. This is extremely significant, because in the past most countries have resisted the United States's attempt to include free trade in services in international trade agreements.

There are very good reasons why they do this. The United States' companies are truly dominant in international trade in services. They account for one quarter of all the world's trade in services, and in some areas they are absolutely dominant. For example, in data processing they account for 80 per cent of the world trade in services. When countries anticipate the ability of large American service companies' expanding in their own markets, it becomes very important.

I must explain that all industrial countries refer to themselves as industrial countries, but essentially we are service-oriented societies; that is, the service sector accounts for much more of our national income and employment than any other sector in the economy. In Canada, it accounts for two thirds of our national income, and 70 per cent of our labour force is in the service sector. What is very peculiar about this is that we have rushed into this agreement in services without any examination of the impact on a single service industry in Canada.

The Macdonald report, as you are probably well aware, did 72 background studies on industries and various aspects in Canada. It came up with with the conclusion that free trade would be good for the country. Not one of these background studies looked at services and what the impact of free trade would mean on services.

Essentially, this is such a massive oversight that it is hard to know really where to begin, but I will give you some ideas about what it will mean. There are two ways that services can be provided. One is through transborder trade, that is, actually importing the service across from the United States into Canada. The other way is by establishing a service firm within Canada and actually providing the service here. This deal provides for both of these issues.

Essentially, the transborder trade will mean a loss of jobs in a great many Canadian industries. The previous speakers may have discussed what transborder trade in agricultural services may mean, for example. What we are saying is that American firms can bring machinery across the country and labour to operate the machinery in order to provide agricultural services; that is, planting, harvesting, crop dusting, any kind of agricultural service can be provided from across the border. This will have a serious impact on agricultural labour.

Another area where it will have a tremendous impact is in the area of data processing. Right now, Canada has certain kinds of limits on the ability to process data out of the country. We have tax regulations against it. We have regulations by the Bank Act that banking data be processed and stored in Canada. This is in serious jeopardy with the free trade agreement. It is of particular concern to women because 30 per cent of our labour is involved in the clerical sector. So we are seeing a larger and larger proportion of our clerical work being imported from various places out of the country. This is much easier to do now that we have better transportation and, particularly, telecommunications systems. This is a very serious problem.

Also, Canada is in a worse position with regard to transborder trade of services simply because of the high degree of US ownership of our industry. As a result, a great many administrative functions take place at head offices. If we do not have restrictions on data flows in some way, this means that more and more of these functions can take place in head offices.

What I really want to focus on is the effect on social services. This is primarily because the government continues to maintain that social services have not been considered in the agreement. This is not true. They are very definitely listed in the agreement. The great difficulty is that most people would have a hard time discovering it, because the 296 services which are covered in the agreement specifically are listed by the standard industrial classification code number. Unless people tend to have that hanging around their house, they are not likely to be able to figure out which services exactly are covered.

I want to give you an idea of certain kinds of social services which are covered in the agreement. First, the management of all hospitals is covered in the agreement. What this means is the running and the operating of hospitals. This includes general hospitals, rehabilitation hospitals, mental hospitals, paediatric hospitals; all kinds of hospitals are included in the agreement.

The other kinds of things which are included are other institutional health and social services, for example, homes for personal and nursing care, homes for the physically handicapped, homes for the mentally retarded, homes for children in need of protection and homes for single mothers. We also have other noninstitutional services, such as ambulance services, drug addiction and alcohol treatment centres, public health clinics--just about everything is included in this agreement.

In addition, we also have certain kinds of educational institutions included in the agreement, that is, post-secondary, nonuniversity education in particular. What this means is that we will have free trade completely, not just in management but in all aspects of vocational schools, schools for the arts and performing arts, trade schools, business colleges--essentially, all nonuniversity, post-secondary education.

What this agreement does for these 296 industries is give these industries the right to establish in Canada and the right to be treated as any Canadian firm is treated. What the worry is for most people who are concerned about social services in Canada is that these firms will have access to government subsidies and government funding.

There is a clause in the agreement under services which says that service firms will not have right to subsidies, but one has to look at what is defined as a subsidy. This is where we get into this whole grey area of what a subsidy is. Essentially, as you know, this has not been defined in this agreement but has been put off for another five to seven years. There are many cases--for example, in nursing homes--where government support of industries is not through a subsidy per se but is through buying spaces. This is a fee for service, so it does not include a subsidy. What this means is that government will not be able to distinguish between nonprofit agencies and for-profit agencies when it is deciding how to spend government money on social services.

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This is of great concern to women's groups for several reasons. First, our experience is that the private sector provision of public service tends to mean there is less accessibility to these public services, less universality, and costs tend to be higher. What we see happening in a few hospitals where private US management is taking place is that these hospitals are essentially run for profit. In these cases, we see tremendous loss of labour for the

nursing labour force. The trend towards privatization of the management of hospitals is taking place simply because of the reduction in availability of funds--the funds for hospitals are not increasing in proportion to the need--and so there is a tremendous tendency on the part of hospital administrations to contract out in an attempt to reduce their costs.

In the few hospitals in Canada which are now run by US firms, what we see happening is that US-style patient classification systems are introduced and, as a result of this, nursing forces are very drastically reduced. Only a small proportion of the nursing staff is hired full-time and a very large proportion is sort of on call and taking part in part-time labour.

There is one other issue with regard to social services which is extremely important and seems not to have been much noticed in this agreement. This is in the section at the end, under "Other Provisions." This is a section which deals with monopolies. What this section says essentially is that any government in Canada has the right to establish a monopoly, but there are several conditions you have to meet first in order to do this.

First, you have to consult with the Americans any time a monopoly is established which will affect their industries here. Second, you have to get their agreement that this can happen. The third thing is that you have to compensate any US firm which is likely to be affected by the establishment of government monopolies. This would seriously constrain the ability of any government in the future to take any kind of industry out of the private realm and put it in the public realm. I am thinking particularly of two issues which have been discussed a lot recently, and those are auto insurance and dental insurance. These are two issues which would be virtually impossible for any government in Canada to put in the public realm once this agreement is in place.

What we are saying is that as far as the public provision of social services goes, the status quo is the best that it can ever get with this particular agreement. You may be able increasingly to privatize social services, but it would be virtually impossible as a result of this agreement to put any more into the public sector.

I think what we have to worry about in this whole issue on social services as well is what happens to social services which are not specifically covered in the chapter on services, chapter 14. It does not include certain kinds of social services like day care. However, these services are included in the chapter on investment; that is, American day care firms have the right to establishment and the right to national treatment under the section on investments.

This is of considerable concern to women in Canada because we have long called for nonprofit day care, not for-profit day care. What worries us in particular is that it appears very likely these firms will have access to government subsidies. I am thinking of cases where right of establishment would give any firm the right to capital grants for setting up day care, for example, if these are being given by provincial governments. Of course, this is what happens all the time. It appears that provincial governments will not be able to distinguish between profit and nonprofit institutions as a condition of the agreement, particularly because of the right of establishment and the right of national treatment in this section.

The other thing that we are very worried about is the whole issue over countervail and antidumping regulations, which essentially mean that social programs are as much in jeopardy now as they ever were with the US, as was pointed out in the previous round of discussions before this hearing. The protectionist legislation in the US has not counteracted the American ability to challenge our social programs as unfair subsidies. This will continue; in fact, we have become our accomplices in this particular issue.

I want to explain that there is one important issue with regard to a disputes mechanism which seems to have been overlooked, that is, how it will relate to the service sector. When we refer to a disputes mechanism, we are usually interested in how it affects the countervail duty and antidumping legislation. However, the new feature of this legislation is that we will very definitely have a binding disputes mechanism to deal with American complaints in the service sector. This is in the chapter which was referred to as institutional provisions. It is one before the disputes mechanism dealing with countervail and antidumping.

What is very important in this feature is that it extends those kinds of American protectionism, which they enjoy through countervail and antidumping, to the service sector but applies to Canadian service firms when they are within this country. In the past, there has been no way for American service firms which have been unhappy with what is going on in Canada to complain to an international body about unfair treatment in the service sector. I am thinking of a case which happened in Ontario last year, the case of a large American insurance industry which wanted to set up a certain kind of insurance program in Canada using part-time labour. They claimed Ontario's licensing of life insurance salespeople was an unfair labour practice. Under this agreement, Ontario's final decision to protect its own insurance industry would be illegal. It would be brought before this binational disputes panel because now there would be a mechanism for dealing with unfair practices in the service sector.

I feel this has been seriously overlooked because what we are really doing is extending American protectionism to the service sector even when that applies to our country within our own boundaries. In the past, countervail and antidumping occurred only when we sent things out of the country. This will apply within the country now. We are extending US protectionism with the disputes mechanism. It is a very interesting issue here.

There are many more issues which concern women which I will not cover because I do want to have time for questions, but the consumer issue is a very important one that I want to speak to very briefly. Women do not buy the government's argument that we are going to have lower prices. This is not an experience that women recognize; that is, any time there are massive changes in the economy, we do not have the experience of seeing lower prices as a result of it.

What we recognize is that the tariff reductions through which we are expected to have lower prices are a tax, and if the government does not have a tax on this issue, they will in some other way. The way the government plans to do this is through increased sales tax. We have always been against this because this is an extremely regressive tax which bears very hard on women, because they tend to be in the lower income brackets and therefore spend a larger proportion of their income on taxes when it is through items for sale. We recognize it is very unlikely we will have larger amounts of money to spend.

Also, we have had experience with trade liberalization and its impact on prices. The most recent one was as a result of the GATT reduction in quotas and tariffs on children's and men's shoes. This was about two years ago. In the first 14 months this was in effect, when we had no tariffs and no quotas on imported men's and children's shoes, our experience was quite drastic: 1,400 jobs were lost in this period of time, a very short period of time, and the price of imported children's shoes increased by 26 per cent and men's shoes by seven per cent. This was in a 15-month period, and this was within the past two years.

This is very important to us, because the arguments that trade liberalization will reduce prices is not any argument which women buy. I think it is really a very false argument but it is one that is being used by the federal government to try to sell this to women.

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In closing, I do want to say that the national action committee has been extremely pleased that the Ontario government has made an attempt to examine the impact of free trade on women. So far, this is the only government in Canada to look at the impact on women, which is quite peculiar, since we are a little more than half the people in this country, 52 per cent now. The federal government has been really very unconcerned about this issue.

Leadership at this point in Ontario, as the largest province in Canada, is crucial for the whole country with regard to the free trade deal. We certainly urge provincial leaders not to be blackmailed by the Prime Minister's attempt to divide this country, that is, to set up Ontario as an exception to the general support for this deal.

I have been travelling all across the country talking to women from coast to coast and, essentially, people are against this in Canada. There is tremendous division in every province. Often we do not get the notion of this because some provincial leaders are very much in favour of it. But I do want to point out these are extremely unpopular provincial leaders in their own governments, in particular in British Columbia and in Alberta. We do have to be very careful of identifying what certain political leaders say with what the people in those particular provinces think.

We feel right now that what is necessary is a nationwide campaign which dramatizes how all Canadians stand to lose. Essentially, what we have to do and what I think is important is to focus on the effect of the free trade deal on social programs. This always has been what has worried Canadians. They do not look at the United States and the provision of social programs in the United States with any kind of envy. In fact, it is with a shudder always that we would have to harmonize anything on the basis of what goes on there.

The other thing that we can also focus on which is a nationwide issue is what happens to agriculture. In every province agriculture is an important sector.

Also, I think we can focus on industries other than the auto industry, because there is a great deal of production, particularly food processing, right across the country which stand to lose a great deal. When this is discussed in other parts of the country, the importance of this is understood.

I think also we need to highlight the importance of the agreement for limiting provincial powers in the future. I think particularly this issue of the discipline on public monopolies and the right of--essentially, there is an issue here. When we talk about right of national treatment, in this agreement it also means right of provincial treatment. It does not mean that a company establishing in the Canada has to be treated like any Canadian company. Essentially, it has to be treated like any company in the province. We are going to have very peculiar anomalies here where the Ontario government is going to find that it has to treat American firms who are importing into Canada in a way like firms in Ontario while it does not have to do that with firms that are located in other parts of the country. This is particularly true for services.

I know this government has taken an inventory of provincial laws and regulations which are affected by the agreement, and I would urge it to make these available immediately to the public because we need to know these issues.

Of course, we want actively to push for an election on free trade, essentially before the deal is in place. This is extremely important because I think, as the previous speaker said, once the deal is in place, there are tremendous penalties which can happen and we will not recover easily for this.

I would like to see the Ontario government also publicize more the effect that this will have on women. While you have done a study, it is important that provincial leaders also talk about this.

Essentially, NAC feels that this is more than a trade deal, it will affect the very ability of this country to determine its own social and economic policies. Women have been against it because it really is not in our interest to have the power of the private market essentially rule what goes on in this country.

NAC's message to the Ontario government is basically that we do not want you to be too timid in imposing this deal and the women of Canada will certainly applaud strong action on your part.

Mr. Chairman: Thank you. That is a very thorough review of a lot of areas. I might just inform you that the Attorney General (Mr. Scott) appeared before the committee earlier this week, and he indicated that the inventory is just in the process of being completed and will be released as soon as it is completed.

I might also indicate that the various methods that are scattered through the agreement on dispute settlement become more complicated the more you look at them. Your view of section 18 seems to be corroborated by a number of American trade lawyers whom our researcher and myself had the opportunity to hear last week.

Mr. Ferraro: Ms. Cohen, first let me thank you for a very impressive presentation. I sense, however, that you have run into the same problem most members of this committee have, from either partisan perspective; that is, you could go on and on and talk about this thing because it is indeed an important and fascinating topic.

I have a couple of questions. Some are fairly simple, I think. Perhaps all of them are. The first question I have--and the chairman touched on it--is that we are doing a constitutional audit and it will be released. But the

position that my party has taken, for the most part, is that our reaction to this--in other words, groups and other parties will argue: "Ontario, you are not doing enough. You can do a hell of a lot more." Depending on their own philosophical point of view, they may be right or wrong.

But our general summation is that until we find out exactly what the implementation legislation is, we really cannot at this juncture do anything from a judicial point of view, for example. Would you agree with that?

Ms. Cohen: I am an economist and not a lawyer, so in many respects I have to say that I really cannot tell what it means with regard to whether or not it is possible to have any kind of court case over this deal. I cannot be one to say this.

Mr. Ferraro: Fair enough.

Ms. Cohen: It seems to me we have two chances to stop this free trade deal. One is by stopping the implementing legislation. Essentially, this would be difficult to do since the federal government has a majority in power.

The other thing we can do is to somehow create some kind of political crisis so that an election is absolutely essential. I think Ontario really is in a position to create a political crisis. It seems pretty clear that this agreement really infringes on political powers of the provincial governments in extraordinary ways. Not only that, but it does so for the future as well.

Even that one clause on discipline of public monopolies is in itself a tremendous infringement on provincial powers to have the kind of provincial government we want. What this means is that essentially in the future we will not be able to do so. There are countless places all the way through, even on the whole area of the service sector. Provincial licensing is incredibly important in these issues and yet we are really abdicating control over this through the free trade deal.

I think we have to see this deal as a process. This deal is not a package. All the way through it, and particularly in the service sector, they are saying: "We are going further and we are in the process of doing it right now. We are going to expand this. We are in the process."

What is going to happen is that this deal will change, but essentially outside public scrutiny. There are already mechanisms in place for these things to change and to expand.

Mr. Ferraro: I have two questions that I do not think will take that much time. The National Action Committee on the Status of Women has today called for an election on free trade. The Ontario Federation of Agriculture today said the same thing. Have you formally asked the Prime Minister for that and has he given you a response?

Ms. Cohen: We have asked this in concert with other groups; that is, through the Pro-Canada Network we have demanded this. Yes, we have asked very specifically. We have an annual lobby of members of Parliament. A few of the executive of the National Action Committee had a meeting with the Prime Minister--that was last May--after our annual lobby. We put this forward to the Conservative caucus. We put forward our call for an election, and we did so to the Prime Minister again. His response is always, "There will be an election on free trade." Of course, he expects this election to take place after free trade is in place.

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This may be a suicidal mission on his part, that he is so caught up with having a particular right-wing agenda put forward that he is not particularly concerned about what happens to his government. In any case, I do think it would create a political crisis. I think we are on the verge of one and that we can force an election in this country.

Mr. Ferraro: What I found very fascinating was your concern about services. Indeed, you have expounded on it to a greater degree than most delegations, and I think understandably so. I am extremely sensitive that this whole deal is put by those who are proponents of it in a positive vein, whether we are saying we can be as competitive and all the rest of the thing, because of the distinction between our bucks, the 22-cent leverage.

Ms. Cohen: Yes.

Mr. Ferraro: Just as an aside, I find it interesting for Mulroney to be going around the country saying we can be as competitive as the United States. That is very instilling. On the other hand, he has exempted certain sectors--for example, the brewing industry--and understandably so. So it is to some degree contradictory. My biggest fear is of this deal going through and of having the unilateral decision on the part of the US, as it has in the past, to devalue its buck.

Ms. Cohen: Yes.

Mr. Ferraro: I am just wondering whether, as an economist, you would want to expand on that.

Ms. Cohen: The estimate has been that if the Canadian dollar rises to 85 per cent, it will absolutely and entirely wipe out our trade surplus. So this is fairly serious. We know that it has much less to do with competitive positions per se than with what happens with regard to the relative value of our dollar. With regard to services, I think altogether what we have to worry about is much less our ability to export than our ability to maintain control of our domestic economy.

All of the industries where women are concentrated in the manufacturing sector are not exporters. We have trade deficits in all those industries. What is extremely important is that we maintain control. They produce for a domestic market, and if we have very many incursions into our domestic market, then our trade deficit will rise extraordinarily.

In the area of services, Canada is different from most other industrialized countries in that we do not export services. Most industrialized countries are major exporters of services to Third World countries or to other industrialized countries. Canada is very weird in this way because, although we are a service economy, we have traditionally had a net deficit in services, one that has been growing at an alarming rate. The only thing that makes us have a surplus is our merchandising trade surplus, which, as we all know, is largely dependent on raw and semi-processed materials.

Mr. Chairman: Mr. Ferraro, my recollection of Mrs. Pyke's evidence was that the Ontario Federation of Agriculture, she expects, will be passing a resolution shortly which will--

Mr. Ferraro: You are right. I am sorry. Thank you for correcting me.

Mr. Chairman: Also, I might inform you that the the Attorney General, somewhat facetiously perhaps, informed me that Nova Scotia did not endorse free trade until it got a letter from the Prime Minister. Ontario did not get a letter. Perhaps women should ask for a letter from the Prime Minister to change their views.

Mr. Ferraro: It is in the mail.

Mr. Chairman: Just a brief question arising from your last answer on services. We do export some services, do we not--management consultants, engineering?

Ms. Cohen: Yes, we do. In every sector in services, there is a trade deficit in the service sector. But within the business services there are a few which have a surplus, and consulting is one of them. But they are very small. I am going to leave you a copy of a book that I have written, called Free Trade and the Future of Women's Work. It specifically looks at the trade deficit in services and the areas in business services where there are surpluses and deficits.

Mr. Mackenzie: I would recommend to you one of the briefs we had yesterday. That is the brief of the United Steelworkers of America, or one section only, and that has 17 specific recommendations for this government to toughen up its position in dealing with this particular trade deal, suggestions that, if taken, I am sure would force the issue either here or in the United States.

My question has to do with whether you have any additional comments to make in terms of one of the--I think it is a fairness issue, not a social issue per se, and that is the issue of pay equity and our ability to continue and succeed in carrying out a program of pay equity.

Ms. Cohen: I have been very involved in the pay equity issue for, I guess, 15 years, trying to push this through in Canada. It was not easy. We certainly do not have terrific pay equity legislation at most levels of government. It is better in Ontario than anywhere else, and that was a very hard struggle too because we were resisted for many, many years on this issue.

What we were up against essentially was all the might of big business, and small business too, for that matter. They essentially said that they could not afford it, that it would ruin them if they had to pay women what they were worth, and this was the kind of argument we have been fighting for ever.

Essentially, what I see happening through this free trade deal is more of the same. In some respects, I think the business community will be on a better footing because it genuinely will be facing tougher times.

As far as improving this situation of employment equity for women is concerned, I see this as being really a disaster, because I can only see business putting more and more weight against any kind of improvement in pay equity legislation or in affirmative action programs.

Mr. Mackenzie: I think we got some of that from some of the business groups before us that stressed the need to be more competitive, the need to have less government intervention and the need to take a look at the cost

factors, and certainly included in them were things you have mentioned like minimum wages and benefits.

Ms. Cohen: Yes.

Mr. Fleet: I was fascinated by the presentation you made and I wanted to follow a little bit more closely your analysis that the federal government presumably, and potentially, I suppose, the provincial government, would not be able to discriminate between profit and nonprofit institutions.

The example that came to my mind and which you subsequently referred to was child care. Do you understand that to be the effect of the service provisions? Is that the impact of the investment provisions, or is it the combined effect?

Ms. Cohen: No. Child care is not included in the chapter on services, so this is why the government keeps saying child care is not affected by the agreement.

However, if you look at the chapter on investment, you will see that all services are included in the chapter on investments. I do not have my copy here, but there is one small section there that says that only the services which are covered in the service chapter apply to one small aspect of this, and that is their operation within Canada.

However, within the investment chapter, these services are still given the right of establishment and the right of national treatment; that is, all US services are given the right of establishment and the right of national treatment. The only way they are exempted from national treatment is in the operation of the service within Canada.

I will use the example of the day care situation because I think that is very important. It means that essentially an American day care firm, and we do have a fair number of them in Canada, can--thank you. That is in services, I am sorry. I am looking at the chapter on investment, which is--

Mr. Fleet: Section 16 is on investment, and articles 1602 and 1603 seem to be the ones that involve performance requirements and the general provisions for the treatment of services and goods.

Ms. Cohen: Yes. Under article 1601, scope and coverage, it says, "The provisions of subparagraph 1(c) of article 1602 shall not apply to any measure affecting investments related to the provision of services other than covered services."

So 1602.1(c) refers only to the conduct and operation of the businesses located in its territory. However, with regard to everything else, every other service is covered, essentially. That means they have a right to establish in Canada and they have a right to national treatment. It says that very specifically under article 1602.1, "Except as otherwise provided in this chapter, each party shall accord to investors of the other party treatment no less favourable than that accorded in like circumstances to its investors with respect to its measures affecting" the following.

What it means with regard to something like day care is that, if an American firm comes here and wants to establish in Canada and day care firms are getting capital grants to build premises, they would have to be eligible for it too.

I am told by a certain legal expert that article 2011, on nullification and impairment, reinforces this whole idea that any kind of provision which is given to Canadian firms, whether they are profit or nonprofit, can reasonably be expected to be given to American firms as well when they are established in this country.

Mr. Fleet: Would that mean that the government would have the ability under the agreement to subsidize the operation of day care centres?

Ms. Cohen: As it says the conduct and operation of business is excluded, I would imagine that is something they would not be able to do. However, you have to look at some things. What happens is that often the way day care is funded is not through subsidy but through a fee for service for low-income families. In this respect, there would access for private firms to government funds, as well; they could claim it in the same way.

Mr. Morin-Strom: I would like to get a clear opinion from you on what should happen with the agreement we have negotiated to this point, presuming we have a change in the leadership of the country after this next election. One of the debates we seem to be having, particularly within the Liberal Party in Ontario, is whether we should tear up the agreement or continue to implement the agreement but renegotiate it.

What is the position of yourself and the National Action Committee?

Ms. Cohen: We were against even going into these negotiations, for several reasons. First, in some areas it is much safer for us to negotiate with other countries which are not as strong and powerful as the US, particularly in the area of services. It would be much healthier for us to negotiate a trade arrangement with the United States through GATT.

I think there are dangers within GATT as well, because the US is extremely powerful there. I think we have to be very careful about what happens around trade liberalization and who we align ourselves with. One of the dangers of this agreement is that we promised through this agreement that we are going to be on the American side no matter what in GATT negotiations. We have never taken that position before. We have always been much more careful about having an independent position, but now we have given that up.

I do feel that in the area of services, GATT is a more appropriate way to go about this. I feel this agreement has to be totally set aside. I do not feel we can work with this agreement. I am not of the opinion that Canada needs to drastically increase its level of exports. This agreement is essentially an export-led growth policy. It is saying we have to improve our exports to the US at all costs and all our other economic and social policies are going to follow suit as a result of it.

We do not have a bad time with regard to accessibility to the US market or to the general level of exports as a percentage of our total national income. As you know, we are one of the world's leading exporters, that is, a larger proportion of our national income is devoted to exports than almost any other industrialized country, with the exception of West Germany. When we

compare our reliance on exports with a major trading country like Japan, we recognize just how serious it is. Seventeen per cent of Japan's national income comes from exports; over 30 per cent of ours does. We are extremely export-reliant at the moment. The great danger is when you tie it all up with one country. As we know, it is very much tied to the United States; over 75 per cent is with the US.

It seems to me that doing more and more of the same kind of thing, which got us into trouble in the past--and I think it has; I think this is why we have structural employment problems in Canada--is because of our trade policy. I do not see us pursuing economic growth and development through increasing exports. I think the level we have now is about where we should be. What we really need to do is to find ways to have more control of our domestic economy.

Right now we have a trade deficit in the very things that are most labour-intensive. The areas where we have a trade surplus are the areas where we have relatively little labour content, that is, only our primary sector. Only six per cent of our entire labour force in Canada is in the primary sector. The other 94 per cent is in the services and manufacturing sector. That is where we have a trade deficit, which means we are importing more than we are exporting in those areas.

The problem is that we have a substantial market here. I think it is a tremendous myth when we say the problem with Canada is that we do not have access to a market of 225 million people. Essentially, this is not the problem. We do have access. We have more access than any other country in the world to export markets.

Our problem is our access to our own market. I think we have to have economic programs which give us greater access to our own market and which tie our various sectors together in a much more coherent way. We tend to be very extroverted in some respects so that our sectors are not closely related. That is, we export certain kinds of things and import other things when there could be a greater mix in our country with regard to primary production and secondary and tertiary production.

I do not think this deal can be fixed. I think it is much too dangerous a deal to try tampering with it saying, "a few words here and there," and "some more negotiations with the US is possible." I think what we need to do is set this aside. While there are problems with the GATT--and I do not think we are entirely safe there--I think it is better than trying to deal with this.

Mr. Fleet: If I might ask a question that is related to the answer you were giving, when you were saying that you think it is important to secure our own market, do you mean to deal with interprovincial trade barriers or are you talking about something else?

Ms. Cohen: That is part of it. We know there are some ridiculous things going on with regard to that, but also I mean import substitution in some ways. There are a lot of areas where we could provide our own products for our own people, yet we rely increasingly on imports in order to do this, particularly with regard to the service sector and with regard to manufacturing. These are areas where we should be much more concerned about, not simply the loss of markets because of import competition, but also just securing a greater proportion for our own manufacturers.

Mr. Ferraro: Mr. Chairman, on a point of privilege: I think Mr. Morin-Strom has attributed a comment I made to my party. He is absolutely right. I said I would not tear up this deal until I had commenced either a replacement deal or something to compensate from an interaction point of view between our two countries. I would, inevitably, tear up this deal, but not before I have tried to replace it with either a new agreement or something that is much more acceptable. I want to distinguish between the official position of my party and my personal opinion.

Ms. Cohen: I just want to say one thing. I think one great myth about this deal is that we are somehow combatting US protectionism and that it actually gives greater access to the American market. I do not think it does. I think we have to look at what the US is doing in all the areas where we appear to have won, like in the cultural industry. For example, one issue in the elements of the agreement was with regard to postal subsidies for magazines in Canada. We were going to have to eliminate them according to the elements of the agreement, the postal rate differential between American and Canadian magazines. However, when we saw the final agreement, we saw this was taken out. This appeared to be a great thing for Canadian culture.

What we see happening now is that the United States is using section 301 of its 1974 trade law, which is a pretty powerful section, to combat this. It is saying: "This is an unfair trade subsidy; you mess around with this one, and we are going to take you to GATT over it," and the United States will win it in GATT.

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We are seeing this over and over again. The east coast fisheries are not going to be safe just because they are safe in this agreement. They are going to take it to GATT, and they can. Every time we have increased access to their markets, we are going to see some kind of challenge over something in Canada. I do not believe we are going to have greater access to the American market as a result of this deal. One thing that is very clear, we have not done anything to counteract American protectionism through it. All of the major tools of American protectionism are still there: section 301 of the trade act, the countervail duty section, the antidumping laws.

Mr. Ferraro: Will they not take it to the tribunal?

Ms. Cohen: They do not have to.

Mr. Ferraro: I know they do not, but will they not, logically, if they signed a deal saying, "Here it is." It would look awfully stupid.

Ms. Cohen: Some of these little things will happen before the deal goes into place, particularly with regard to the postal subsidies. They are already taking this route.

Mr. Chairman: They would have a choice, would they not?

Ms. Cohen: I understand they will have a choice. Apparently, there is some ambiguity about this.

Mr. Chairman: So they would go to the GATT wherever they could win with GATT.

Mr. Ferraro: But if they do not go with this tribunal once it is in place, they are going to look awfully stupid.

Mr. Chairman: I think we are all going to consume the transcript of this very carefully because you have provided us with a virtual cornucopia of information, and we are delighted with your presence.

Yesterday, when the Coalition Against Free Trade was making a presentation, there was also a suggestion that the government should be publicizing more. I argued that maybe we are not in as credible a position in some parts of the country as you are in that we have the word "Ontario" painted over our faces. I was thinking about this particularly when you were talking about textiles, that you are making your presence felt, for instance, in Quebec and elsewhere in Canada as well.

Ms. Cohen: Yes. I have been doing a lot of talking all across the country on this issue, and I guess what is so gratifying is the wholehearted support of other women. It is very rare to find women who are in favour of this deal. Essentially, they tend to be very strong Tory party members, and even many of them are against it very strongly. Right across the country, there is tremendous opposition.

I think there is not the kind of resentment against Ontario that the press would lead us to believe or Mulroney wants us to believe. In fact, this is where we keep seeing it. We see it from a few western premiers who keep referring to it, but I do not find this. I am even asked to come to places like Nova Scotia and Vancouver to talk about the impact of free trade on regional development. That is how much they are not upset elsewhere about Ontarians talking about this issue.

Mr. Chairman: It could be a very curious situation if we end up alone in the Supreme Court trying to protect provincial rights. Thank you very much.

Ms. Cohen: It was a pleasure. I will pass this book up to you.

Mr. Chairman: I would appreciate that. We will attempt to get photostats of it to committee members if it is not too thick.

Mr. Ferraro: Probably cheaper to buy it. I am sure she needs the royalties.

Mr. Chairman: I have just a couple of housekeeping matters. The House leaders have formally given us permission to sit the weeks of February 15 and February 22 to discuss prebudget matters and tax reform and March 7 to discuss the free trade agreement. March 28 will be our trip to Washington. You will note that we have not been granted the week of March 21, but rather the week of March 28. That gives us two weeks off, because the week of March 17 is the break week.

With regard to the prebudget agenda, it may be appropriate for the subcommittee, if it wishes, to meet some time next week when the House is sitting just to go over that and see whether we are happy with it.

Mr. Morin-Strom: Do we have a regular date next week?

Mr. Chairman: No. There are no committees meeting at all next week, it presumably being a one-week situation.

Mr. McCague: That then gives us two weeks for prebudget and tax reform.

Mr. Chairman: Yes.

Mr. McCague: What are you going to do if you get more requests for time? Are you going to go into that week of March 7 or not?

Mr. Chairman: One of our problems is getting a report to the Treasurer (Mr. R. F. Nixon) in time for it to be considered at all. I think the Treasurer made it clear to us that if that report comes after the end of February, he will be on a roll that will be hard to get him off. That is the problem we have.

Mr. McCague: I think you as chairman probably do not want to get caught cutting people off either.

Mr. Chairman: No.

Mr. McCague: My feeling is there is a lot of interest out there on tax reform, probably not prebudget, that might show up as press articles show up in a week's time.

Mr. Chairman: All right. That we will have to deal with. It may be the only way to deal with it is to continue to look at tax reform after we finish a prebudget report, at some other time.

Mr. McCague: It might be.

Mr. Morin-Strom: I think it is far more realistic that we look at the budget issue this time, and the kind of presenters we are having have their own specific concerns. With the complexity of tax reform, we are better off leaving that until the spring. That is still quite a bit of time in its unfolding, I think, between both the federal and the provincial levels of government. I just do not think we can do justice to that issue with six days of sittings or something like that.

Mr. McCague: It says right here prebudget consultation and tax reform. I do not disagree with what you are saying, but this committee has never made the decision that we are not going to talk about tax reform in these two weeks.

Mr. Chairman: You are right. I think our feeling was that the province has been asked to have its involvement in tax reform and some decisions made quickly. Some of them probably already have been made, frankly, because of the forms that need to be done. I think this month was the deadline. In that sense, we were trying to combine the two. I think if we were to seriously want to look at tax reform, we would obviously have to do it at another time.

The problem you are mentioning may well occur, and we will have to deal with it, but I do not know how we can squeeze in much more in that two-week period.

Mr. Morin-Strom: What I would suggest is--I think in our ads we have already suggested both subjects--we take presentations on both, but in terms of writing the report, we should just focus on the budget and leave ourselves open to hearing a much more extensive set of presentations on tax reform later before we reach committee conclusions on that particular issue.

Mr. Chairman: Mr. Birch, who has just left, with some encouragement from the chairman, has been encouraging the cottage industry. I have not seen this. As you may recall, one of the representatives of the Department of State in the United States made a comment to me that we should develop a certain cottage industry in this province similar to New York state's. I pointed out some concerns that exist. Mr. Birch, who has been a very diligent attendee at all of our sessions and who is extremely concerned about this issue, has given us some samples of this particular cottage industry. On behalf of the committee members, I thank him very much. I am sorry I did not get that mentioned before, while he was here.

Mr. McCague: Do we have some wine glasses for after?

Mr. Chairman: I notice there are exactly the same number as there are parties. I do not know how we will switch that around. That might not be fair to the Liberals, though.

The committee recessed at 12:17 a.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS
TRADE WITH UNITED STATES
THURSDAY, FEBRUARY 4, 1988
Afternoon Sitting



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Ballinger, William G. (Durham-York L) for Mr. Neumann

Epp, Herbert A. (Waterloo North L) for Mr. J. B. Nixon

Also taking part:

Fleet, David (High Park-Swansea L)

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Motor Vehicle Manufacturers' Association:

Matthews, A. E., Vice-President, Finance and Administration, Ford Motor Co. of Canada, Ltd.

Clark, Norman A., President

From the Ontario Federation of Labour:

Wilson, Gordon F., President

Surich, Joe, Research Director

From the Council of Canadians:

Trent, John, Chairperson

Willson, Bruce F., Honorary Director

Drake, Sandra, Director

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, February 4, 1988

The committee resumed at 2:10 p.m. in room 228.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: The first delegation is the Motor Vehicle Manufacturers' Association. Making the presentation, as I understand it, will be A. E. Matthews, Jr. vice-president of finance and administration, the Ford Motor Co. of Canada Ltd. On his right is A. J. Fredo, director of public affairs at Ford, and on his left is Mr. Clark, president of the association.

MOTOR VEHICLE MANUFACTURERS' ASSOCIATION

Mr. Matthews: Thank you. I am sorry. I have been hustling around between committee room 1 and the front desk because apparently you were there this morning but you are up here this afternoon.

Let me start by saying thank you very much for giving us the opportunity to share with you some of our thoughts about the free trade agreement. As you probably all know, under the 1965 Canada-US automotive products trade agreement, the Canadian automotive industry moved from an inefficient, high-cost, low-volume situation dependent on high tariffs to an integration with the US industry. The objectives of the auto pact were achieved. Specialization allowed the efficiencies of longer production runs. Tariffs on imported production parts and new vehicles were eliminated, lowering costs further. Retail prices responded, lowering and then eliminating the differential between Canada and the US.

Canada now has a modern, efficient automobile industry producing high-quality, high-technology components and vehicles, using the latest processes and equipment and employing a productive workforce.

None of this guarantees the future. It means only that Canada is dependent upon a world-class automotive industry, as are other developed nations, and that less-developed nations are looking to a domestic auto industry as a key to economic progress.

Now that the auto pact principles have been confirmed, to ensure a world-class industry requires the ultimate in co-ordination between corporate and government policies, both within Canada and between Canada and the United States.

The investments made by the Canadian vehicle producers in recent years responded to changing automotive conditions worldwide. Canadian trade policy is building upon the successes of the auto pact, further integrating the Canadian and US industries.

Without the confirmation of continued two-way automotive trade which this bilateral agreement represents, it is likely that a retrenchment by both countries would take place. That would certainly jeopardize investments, production and jobs in our Canadian industry and, therefore, pose serious economic difficulties for Canadians and our governments.

Motor Vehicle Manufacturers' Association member companies believe that under the Canada-US trade agreement all the ingredients are in place for the Canadian industry to further advance its position as a partner in the North American industry. Access to the giant US automotive market is no longer jeopardized by the possibility of arbitrary protectionist measures. Business decisions can be made, as they should, on the basis of economic factors rather than anticipation of, reaction to or retaliation for imbalances between the two countries, real or imagined.

The auto pact, Canadian version, is no longer an issue. Its benefits to both countries have been recognized and retained. Both traditional and new companies assembling and manufacturing in North America can compete for share in this largest of all markets, with full participation available to competitive Canadian suppliers.

Speaking of the supplier industry, I want to add Ford of Canada's voice to that of the Automotive Parts Manufacturers' Association in support of increasing the North American value added requirement for duty-free trade between the US and Canada from its proposed 50 per cent level to 60 per cent.

I find it hard to understand why this proposal has not been enthusiastically endorsed here in Ontario, the greatest beneficiary of jobs in the supplier industry. It seems to me that, despite the Ontario government's opposition to the overall free trade agreement, the government would want to endorse a proposal that has as its aim the retention and potential expansion of jobs in an industry that rings the cash registers in a lot of businesses in this province. There seems to be more concern for offshore companies that have not yet begun to do business in this province and less concern for companies that had been providing jobs and creating wealth in this province for most of this century.

The free trade agreement, in my opinion, is a good balance of both concerns.

Mr. Chairman: Thank you very much for your points. Your position is basically that this is a good agreement and it would be a better agreement if we had the change in ratio with regard to parts?

Mr. Matthews: Yes, sir.

Mr. Chairman: What about the offshore producers, though? You are saying we are giving them perhaps too much concern. They have made fairly significant investments in this country. There have been certain understandings on our part that we initially wanted to encourage them to join the auto pact. I think in fact the Big Three were quite aware of that. That was not news. What reaction do you have to the possibility of their joining the auto pact?

Mr. Matthews: I personally believe the investments that have been made in Canada by the offshore companies are relatively modest. If you take the domestic industry, the amount of commitment made each year--which goes virtually unnoticed, either in public or government circles--is substantially more than the amounts that have been announced by the offshore producers. My own company, for example, probably spends at the rate of about \$50 million a quarter. And there have been very large investments made by the domestic manufacturers, which I think have largely gone unnoticed, whereas for \$80 million for one of the offshore producers we seem prepared to do backflips.

Mr. Chairman: I am quite aware that your company does a lot of investment. For instance, I suppose you do a lot in my own region, Waterloo region, but in actual fact I guess we are all greedy and would like to encourage the offshore companies to do the same, even though it may mean competition to yourself.

Mr. Matthews: Let me give you an example. We built a plant in St. Thomas 20 years ago. That plant's payroll over the last 20 years has exceeded \$1.5 billion, our municipal tax payments are around the \$25-million mark and we have built almost four million cars there.

Now, to the extent that the offshore producers come in with lower wage rates and an ability, through government and other subsidies, to make us unable to continue with those kinds of facilities, we have put a lot of people's jobs at risk for the promise of a very small number of jobs. I think that is the part that has not been noticed. For example, the potential Hyundai plant in Quebec, which is going to employ maybe 1,200 people, probably puts at risk, between the automobile companies and the supplier industry here, 11,000 jobs. I think you need to look at the balance. There is such a thing as overcapacity. Probably in the 1990s, there will be only four buyers for every five cars that are built.

Mr. Chairman: So the basis of your argument is the security of jobs and of the industry as it now exists.

Mr. Ferraro: I have a lot of empathy for your statement that politicians and the government do backflips to try to get foreign investment in. I think that is good, I think it is healthy and I understand the predicament and the feelings of the guys who have carried the freight all these years--Ford, General Motors and Chrysler. Really, to be very simple about the statement, with the exception of Chrysler, which got into problems, GM and Ford have not really come with their hands out a hell of a lot to the government, if at all. My question is, why not? Is it our fault? Did you ask?

Mr. Matthews: I am trying to think of a good, tactful response to that question. It is a very good question. Over the years, when we have had a project which government funding would be appropriate for, we have found both levels of government to be very enthusiastic. For example, I think the last major project we had of that sort was an engine plant we put into Windsor. We found governments very helpful in that plant. I think it has probably been our stage of development and that our investments have been more renewing rather than green-field-type investments. That does not preclude us, however, from recognizing the problem coming along later.

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Mr. Ferraro: I have a second question. You made a statement on page 2: "The auto pact, Canadian version, is no longer an issue. Its benefits to both countries have been recognized and retained." I ask you for a minute to fantasize, rightly or wrongly, that you are a politician--and to some degree you are, but you do not get paid for it--and you are concerned about creating jobs. I will make a very basic assumption that, as recent history has indicated, the auto pact and to some degree the aspect of becoming a member of the auto pact encouraged, along with a lot of other factors, the currency rate and so forth, foreign investment.

Toyota came here and said, "We are going to work towards getting auto pact status." That is what they did say, which could be right or wrong. For

example, General Motors' new proposal--what do they call it? CAMI Automotive Inc.--is included in the auto pact.

My question is, then, if you have limited membership to the auto pact, from the standpoint of being a politician concerned about creating Canadian jobs, are you not in a worse position by not leaving membership open? I am challenging your statement that you say the benefit has been retained.

Mr. Matthews: Let me respond in a little different fashion. To the extent that you encourage kit assembly, you are negating some of the progress that has been made under the auto pact. To the extent that you encourage someone to come in where only the assembly labour is involved rather than a good deal of the manufacturing of the vehicle, by encouraging those people to come in, you are putting jobs at risk.

I would say, in fact, the limitations on the auto pact have protected employment and will result in more rather than less employment. To have opened the auto pact to the transplants would have had the reverse effect. It would have increased unemployment and reduced the value of the auto pact.

Mr. Ferraro: I accept that, considering the fact that we know there is going to be an oversupply by 1990 or 1991, whatever it is.

Again, I am sorry to take you on this fantasy trip, but hypothesize this. As we have heard recently, now the United States is looking at opening up a free trade negotiation with Mexico. As indicated by the Automotive Parts Manufacturers' Association of Canada and the way we have it now, with North American content as opposed to specifically Canadian content, is there not going to be a greater emphasis by the manufacturers in the automobile business to seriously look at establishing either in the United States, in the southern United States in particular, where labour laws and salaries and so forth are significantly cheaper--excuse me for digressing a little bit--and offset by the differentiation that we have now in currency values?

Getting back to what I started on, if Mexico is in on this thing, then would you not, from a business standpoint, be nuts not to look at Mexico as a future investment thing? You have access to the North American market. You are going to get a hell of lot bigger bang out of your buck and I suspect labour, while not presently sophisticated enough, can be trained.

Mr. Matthews: That is a very good question, although I would respond in this way. As long as the governments of Ontario and Canada continue to make sure that Ontario is a province in which the auto industry can be competitive, i.e., that the legislation does not unduly increase our costs or limit our ability to build a quality product, I would say that if we can compete in the US market, we can certainly compete with the Mexicos or anyplace else in the world.

Mr. Ferraro: Does that not demand either absolutely significant tax reductions or significant changes in our standard of living for our labourers?

Mr. Matthews: I think not.

Mr. Ferraro: Then how the hell can we be competitive with Mexico?

Mr. Matthews: There are a whole balance of things that you have to take into consideration. Mexico is not within a reasonable distance of a large part of the manufacturing and automotive assembly capacity in North America.

Mr. Ferraro: Fair enough.

Mr. Matthews: They are a long way from the market. Ontario is in a very favoured position for freight costs, both inbound and outbound freight, and that is a fairly major and significant advantage. As the industry moves to just-in-time systems and more effective processes, it is difficult to operate if you are at the far end of the supply line. Even General Motor's plant in Ste. Thérèse, for example, is a little bit further away than I am sure they would like to have it. So Mexico does not have some of the inherent advantages in being close to the large population centres of the United States.

Mr. Ferraro: May ask one last question? I understand what you are saying, but could you, in your position of finance with Ford, hazard a guesstimate as to what it costs as far as transportation for the North American market right now, percentage-wise?

Mr. Matthews: If you are talking about reducing amounts of assembly labour, let me just put it in proportion. I would say the freight penalty probably exceeds the labour cost in a car.

Mr. Ferraro: It does. Thank you.

Mr. Matthews: From an assembly standpoint.

Mr. Clark: Could I add just one comment to that answer? Do not go away with the impression that it would be that simple to flow goods from a country as far away as Mexico right through the United States into Canada at the Mexican levels of cost. The rules of origin that we have in this free trade agreement would be paralleled, probably, in anything the US might develop with Mexico. That in itself has a lot of discipline attached to it in terms of administration and how the flow-through across the country is going to be handled into a third country, from Mexico through the US to Canada. The international trade situation just does not allow that to happen that simply.

Mr. Ferraro: I thought it had laws that guarantee this as to content from that country, but the rules of origin, as far as transporting between Canada and the US are concerned, are virtually unanimous. I would assume that would be the case with Mexico.

Mr. Clark: Right, but if you start with a Mexican product, unless you make great changes to it in the United States, it stays a Mexican product and it does not get put in as a Canadian or an American content element in a product that is shipped from Canada to the United States or vice versa. It depends a great deal on how you source your material.

Mr. Matthews: Let me follow on, though, just a little bit. Quality is one of the major drivers, certainly in our business and certainly for our company, as you probably know. When the company decided to extend this Q-1 award that we have to our own plants, the first plant to win that coveted award was not a plant in Mexico, Southeast Asia, Europe or even the US. It was the Essex engine plant in Windsor, Ontario. By the way, the second award was also won by a Windsor facility of Ford, so that is pretty indicative of an important difference, too.

Mr. Mackenzie: On page 2 of the brief remarks you have made, in the second paragraph you say, "Without the confirmation of a continued two-way automotive trade which this bilateral agreement represents, it is likely that a retrenchment by both countries would take place."

When I first heard you say it, I took it that in effect you were arguing status quo, as we have had certainly to some extent from both the lumber industry and the steel industry. Then of course your next paragraph seems to negate that. You are not arguing, I take it, status quo. You are not trying just to protect the status quo.

Mr. Matthews: No, not in any way.

Mr. Mackenzie: You see some substantial investments in new jobs in your industry here in Canada as a result of this agreement.

Mr. Matthews: No, I do not think I do, but I conclude that some of the pressure has probably been taken off the transplants. In response to the previous question, I think I indicated that having the transplants not included in the auto pact and able to participate in the free trade agreement by achieving a 50 per cent level of North American rule of origin--I really believe it has been helpful in that regard in terms of protecting jobs in Ontario.

I do not think I would go so far as to say there will be additional jobs, although the increase in economic activity that is likely to occur--I think the report by the Economic Council of Canada, for example, might talk about 120,000 jobs--clearly would mean there would be more people to buy more cars. To that degree, there may well be more investments.

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Mr. Chairman: Mr. Clark wanted to add to that.

Mr. Clark: I was just going to suggest to Mr. Mackenzie that in 1965, when the auto trade agreement came in, we literally wound up with conditional free trade, if you will, and that created tremendous transition forces which were to the benefit of both countries.

Mr. Mackenzie: Are you saying the auto pact was a free trade agreement?

Mr. Clark: Yes, conditional free trade.

Mr. Mackenzie: You are the first one who has made that argument.

Mr. Clark: There were no tariffs on goods in the automotive area between Canada and the US--

Mr. Mackenzie: In any event, if I could back to it for just a moment--

Mr. Clark: --for 23 years. May I finish what I was going to suggest?

Our industry under the auto pact perhaps comes closer to something which is akin to free trade than anything else we have got, except maybe the agricultural sector. Maybe we could serve as an example of what might transpire under a free trade agreement. Our expansion to a great extent had taken place a long time ago. We have since refined, improved and reached new technological heights etc. We have also increased labour, jobs and investment and so on over those 23 years that the auto pact has been in effect in Canada. We are there, to some extent. We hope other industries can achieve something relatively close to the same expansion we have.

Mr. Mackenzie: It seems to me it does beg the question that was put very clearly, the same question: Would there be new jobs likely produced? One of the first arguments in this whole deal was that, with this vast new market to be accessed, there were going to be a lot of new jobs. Then we started getting the arguments of protecting the status quo, which have clearly come from a couple of the biggest industrial groups in this country. You are now telling me that you do not see any new jobs. Would it not be more accurate to say that what you are trying to do is protect what you have got?

Mr. Matthews: I think that is a little unfair. First, we have been on record as saying the auto pact was a good example for what might happen under the free trade agreement and, in fact, that it is a form of conditional free trade, bilateral between Canada and the United States, multilateral in the sense of Canada. We have argued for some time that it was a good example.

Our industry was already free-traded effectively in 1965. There was a big increase in jobs. I have just mentioned some of the important benefits. I think there will be those kinds of benefits in other industrial sectors. Clearly, there will be some industries in which the impact will be negative. There will be some dislocations. I think it is unfair to characterize our response as being for the status quo or protecting our butts.

Mr. Mackenzie: Essentially, you are telling us, or you did tell us, if I heard you correctly, that you do not see any huge investment or production of new jobs?

Mr. Matthews: I think what I told you was that the encouragement that has been given to the transplants has given us a situation of overcapacity North America-wide. Hopefully, the conditions in Ontario will not be hostile to the manufacturing of automobiles and we will continue to manufacture more than our fair share of the North American total. My company, for example, builds about 650,000 cars and trucks in Canada each year and over one million engines and we sell only 300,000.

Mr. Mackenzie: OK. My second question is on the next paragraph in your presentation, the third paragraph, second sentence, "Access to the giant US automotive market is no longer jeopardized by the possibility of arbitrary protectionist measures." I take it, then, that you are totally free of any threat of US countervail in any way, shape or form. That question was asked at the presentation of the steel industry. Even though they took the same position you have, in favour of the agreement, the answer was a very clear no. They recognized that under this agreement they were not guaranteed protection against US countervail measures.

Mr. Matthews: We have been operating under, effectively, a free trade agreement with the US for over 20 years. During that 20-year time period, there have been no countervailing duties.

Mr. Mackenzie: You are telling us they could not bring one now.

Mr. Matthews: I am not saying that. What I am saying is that if we believe history, it would teach us that we have had a long period of operating under this agreement without any of those kinds of difficulties.

Mr. Mackenzie: The softwood lumber people might have said the same thing too; a long history--

Mr. Matthews: The softwood lumber people never had, with due respect, something like the auto trade pact with the United States.

Mr. Mackenzie: --and some of the others, shakes and shingles, were very unexpected.

Mr. Chairman: Let Mr. Matthews finish. Go ahead.

Mr. Matthews: One of the great benefits of the auto trade agreement and the free trade agreement is that we will, in fact, have some recourse in the case of protectionist actions on the part of our major trading partner. I think the problems you have been alluding to were all before free trade and it is unfair to say that those will persist afterwards.

Mr. Mackenzie: No more unfair than that they may, which is certainly a fear of many people.

In other words, your faith is in the dispute settlement mechanism if you do have a US countervail action.

Mr. Clark: No, I am pretty confident we will not have that kind of conflict.

Mr. Chairman: Your association will not be starting countervail.

Mr. Mackenzie: It would be nice to have it in writing that you could not have it either, if that is your approach.

Mr. Clark: Mr. Mackenzie, would it not be nice to have all these guarantees? I do not think we are going to get them.

If I could characterize the situation the softwood lumber people, the steel people and ourselves have been in on both sides for some time, I would do it this way: There has been a big question about whether or not we got more secure access to the US market under this situation. We believe we did.

The reason we believe we did is that the US philosophy is one of harassment. If you are operating under the Constitution of the United States, corporately or governmentally, you are working in an adversarial atmosphere, and if you have a law on the books that you might be able to use to make it a little difficult for somebody who is competing with you from outside the country, you are going to use it.

The figures I have heard are like these: Of the many more numerous complaints that are lodged by US industry against competitive companies from outside the country, something like 75 per cent of them are lost; that is, they are not found in favour of the complainant. In Canada, first of all, the number of complaints are very many fewer relative to the US, but of that fewer number, most of them are found in favour of the complainant. We have the same laws on both sides of the border for countervail and antidumping because they are both based on the General Agreement on Tariffs and Trade codes; it is the way they are used, not what they say.

Now what we have is the US willing to give up this harassment thing. If it turns out that a complaint can be seen to be outside the procedures and the laws of the US, it goes before a binational panel and outside the court system of the United States, which can take many years, as it can here, to find finally in favour of one party or the other.

We believe that is as good as we could have gotten in the way of security of access to the US market.

Mr. Mackenzie: I think you have more faith in the dispute settlement mechanism than even some of your colleagues have had in some of the business groups before us. You are asking us to take a leap of faith, in any event, that we will not have any US countervail and so on.

Mr. Clark: No, we are saying there is an avenue now to perhaps overcome at least the most blatant misuses of that law.

Mr. Matthews: I think perhaps we could say that we have had over 20 years of experience operating under the automotive products trade agreement and we believe that is a pretty good indication of the kind of future we would face.

Mr. Haggerty: On page 3 of your brief presented this afternoon, it says: "Speaking of the supplier industry, I want to add Ford of Canada's voice to that of the Automotive Parts Manufacturers' Association in support of increasing the North American value added requirement for duty-free trade between the US and Canada from its proposed 50 per cent level to 60 per cent."

It has been at 60 per cent all along, and for some unknown reason it has been changed to 50 per cent.

Mr. Matthews: They are slightly different percentages of slightly different things. The 60 per cent level that was in the original agreement was in fact a commitment by the automobile companies to ensure in the additional production they had that they would retain 60 per cent Canadian value added. That is a little different from the 50 per cent North American value added requirement that was referred to in my statement and also by the parts manufacturers and is, in fact, in the agreement.

If you tried to equate them, that 50 is probably equivalent to 60-odd.

Mr. Clark: To 70.

Mr. Matthews: No, the 60 would be over 70, but the 50 is just about over 60. It is not that dissimilar, and in terms of North American value added, there is a different calculation base. It is very difficult to articulate. Norm, maybe you want to try that.

Mr. Clark: I would like to, thank you. Mr. Chairman, with your permission--and I will leave copies of this--this is a one-pager and it would quickly explain some of the major points that we should keep in mind when we are addressing automotive issues under the free trade agreement and under the auto pact. Could I read it into the record?

Mr. Chairman: Go ahead.

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Mr. Clark: OK. I am saying that, first, the Canadian version of the auto pact is unchanged. Companies electing to continue to operate within the auto pact provisions--that is, the motor vehicle tariff order of 1965--must continue to meet the same Canadian value added--that is, the 60 per cent--and production-to-sales ratios, as at present. Nothing changes. Meeting those criteria will continue to entitle the company to import original equipment manufacture parts and new motor vehicles into Canada duty-free from anywhere in the world--those companies that continue to meet the auto pact. No additional companies can join the auto pact unless they meet its provisions next year.

Now the second part: The US version of the auto pact--which was different--has changed under the bilateral free trade agreement. Instead of a Canadian article being defined in the American tariff schedule as one with no more than 50 per cent non-Canadian or American content, and thereby able to enter the US duty free, the new definition or criterion for duty-free entry into the US will be for an article to embody in its total value 50 per cent direct costs of manufacture. That means no more than 50 per cent of its value may be made up of non-Canadian or non-American materials.

This US change of definition will be administered on less than a total corporate average basis--an administrative procedure--that is, instead of a total corporation's activity being measured, it will be done on a slightly lesser scale than that, perhaps vehicle line, plant or something. That will require a review by a corporation of how it goes about keeping records so that it can prove that it meets this new rule of origin.

Third, an auto pact company can opt out of the auto pact. Doing so would remove its third-country duty-free import privileges into Canada and would place it on the same basis as companies in Canada, such as Honda; that is, the new rule of preference would apply to goods traded by the company between Canada and the US, either way.

The rate of customs duty on original equipment manufacture parts and new vehicles traded in that manner, under the new rule of preference, will be reduced to zero in stages between January 1, 1989, and January 1, 1998. There is one exception to that, and it was not us. We wanted every company to enjoy the status of auto pact privileges, but that has been shut down because the Americans did not want that. They did not want more vehicles showing up into their country, being able to bring in duty-free goods from a third country. They wanted it left no more than what was there now.

The one exception is the GM-Suzuki transplant in Ingersoll, which will be on stream in a year or so, and they gave dispensation to that operation on the basis that it had made the commitment to the auto pact in its memorandum of understanding of 1986, long before the trade agreement was finished.

I will leave copies of this with you, Mr. Chairman.

Mr. Haggerty: We have had witnesses appear before the committee--I think they were the auto parts manufacturers--who were not too happy with dropping the Canadian content from 60 per cent to 50 per cent.

Mr. Clark: It is not 60 per cent.

Mr. Haggerty: I am just quoting here from an article that kind of bears that out. This is from the Oshawa Times of December 17, 1987. It says how happy the president of General Motors (Canada) is with it--we are dealing with that 60-40 ratio, or the 50 per cent drop--"But while the car makers are happy with the deal, Canadian parts manufacturers certainly are not. The manufacturers' association has condemned the agreement because negotiators failed to win the 60 per cent North American content from the United States."

I would just like you to shed some light on this. We are getting different viewpoints here.

Mr. Clark: I think I can try to do that. Under the US side of the auto pact, which came in in 1965, there was a 50 per cent North American content requirement, and it was specified. The way they handled it was to say,

"We are going to define a Canadian article in the US tariff, and if that article meets the criterion of 50 per cent North American content--North American being Canada or US--it can come in duty free."

They changed that. In the October 4 original text of the agreement that came out, they retained the nominal 50 per cent but they had changed the definition of what will be a Canadian article. What happened was Mr. Reisman said, correctly, that the 50 per cent negotiated under the free trade agreement, related to the American 50 per cent North American content, turned out to be 70 per cent. He was saying we now have, after the original agreement was signed, a 40 per cent increase in the North American value that had to be in a product in order for it to get into the US duty free. That is true.

Between October 4 and the December 11 legal text, that definition was further tightened and refined. So now we have another 50 per cent, but it is tighter, and equivalent to what the US 50 per cent North American content was, it is even higher than a 70 per cent piece. That is confusing enough.

The other thing I want to make sure that Mr. Haggerty understands is that the 60 per cent Canadian value added under the auto pact is still there. We have got numbers coming out of our ears that are not understood by the media and probably not understood by all of us. But the fact is that if you key everything back to the US 50 per cent North American content, we have got a much higher level even though the nominal percentage is the same; it has been done through the very much tightening up of the definition of what is North American content.

Mr. Matthews: Maybe I can clarify the whole thing by repeating--

Mr. Haggerty: Do not confuse us any more, though.

Mr. Matthews: I am going to change the subject just slightly and say we, Ford Motor Co., support increasing the North American value added requirement from 50 per cent to 60 per cent, as do the parts manufacturers. I am not sure that when Norm and I both had a try, we managed to clear it up at all. It is not easy.

Mr. Haggerty: We will have to do some more research in this area to get it clearer in all our minds as to just what has taken place.

Mr. Chairman: Did I understand your statement, Mr. Clark, to include the suggestion that it was the Americans, basically, who wanted to grandfather the auto pact? Are you aware of any resistance that came from Canada on that?

Mr. Clark: I am not aware of it. There could have been some. Certainly, our industry for a long time, and Mr. Matthews can answer this one too, has been asking that Canada--all the provinces, particularly Ontario has the most to gain--makes sure that the market that is being taken up by the transplants and by those who are exporting vehicles to Canada without having any production here, are not given the market free. I do not think our member companies would expect to go into any domestic market and not participate in the economy fully, and I do not think Canada should ask anybody to come over here and not ask them to participate fully. That is what has been happening.

We had a meeting with others in Mr. Peterson's government some time ago and the thought was expressed by the government that maybe what we ought to have is tougher plant closing requirements. I said, "Perhaps they should be tougher plant opening requirements."

Mr. Chairman: But now they can never participate fully.

Mr. Clark: They can if they want but not under the auto pact per se. Do not forget that we have got, and I hope it will be a useful one, a statement in the text of the free trade agreement that recognizes the value to each country of its respective healthy automotive industry. There is an automotive panel that is to be set up to ensure that policies and measures are brought forward to maintain that strength and that value to the respective economies. So we are going to lean on that if it falls out of shape at all.

Mr. Chairman: Mr. Villeneuve, then Mr. Fleet and Mr. Epp.

Mr. Villeneuve: Thank you very much, gentlemen, for your presentation. In the last two or three years, the auto pact has been going. Prior to the negotiations beginning on free trade, because of the protectionism that is now occurring in the US, did you sense anything that somehow or other, with or without free trade, particularly without free trade, the auto pact was going to be subjected to a lot of pressure? Did you sense that from within Ford Motor Co.?

Mr. Matthews: I would say that in the last few years, the states of Michigan, Ohio and perhaps Indiana have become more vocal about their concern about the Canadian government's duty remission and other programs. I do not know that it was directly related to auto pact participation per se, but it certainly was directed towards Canada's automotive policy or lack of automotive policy. Duty remission, for example, is not part of the automotive trade pact, but there is substantial opposition to some of the actions that Canada took in duty remission. Among the companies and the states and jurisdictions involved in the automotive pact, I did not sense those kinds of problems.

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Mr. Villeneuve: Would the harassment you referred to earlier possibly fall under that category, that there was a bit of harassment without the possibility of termination of the auto pact as we knew it? It could have been done unilaterally by either country. Did you feel some of that was possibly coming to a head under the protectionist feeling and sentiments in the United States?

Mr. Matthews: It is clear that a number of things that happened changed the structure of the industry slightly. It is clear that when the Canadian Auto Workers and the United Auto Workers were all part of the same organization, you had different pressure points than you had when they were split.

It is also clear that you cannot always predict the way a government is going to operate when it feels threatened in terms of trade, that the US trade deficit was getting larger and larger and that probably Canada was responsible for more of that deficit than was, say, Japan. So it is not clear to me that you would not have thought there could have been some kind of pressure from either organized labour or certain of the border states for some kind of protectionism. I must confess I have not seen any evidence of it.

Mr. Villeneuve: One president of General Motors, which happens to be in competition with you--and I believe what I hear from you people today. You are satisfied that there has been considerable strengthening in the auto pact because of the negotiations and the way they have gone. Would that be a correct assumption on our part?

Mr. Matthews: I think it might be too strong to say "considerable strengthening." It certainly has not been diluted. As you probably know, under GATT, the duties become less and less as you get out in the future. Of course, that means the hurdle that is provided under the auto pact is smaller. However, under the free trade agreement, third-country access is protected for the auto pact, and that is an important element.

Mr. Villeneuve: Under the new rules pertaining to the auto parts industry, is it possible that the equivalent now is more like a 70 per cent requirement under the current invoice pricing system?

Mr. Matthews: If it were increased to 60 per cent, I think that would be true. If it stays at the present 50 per cent, I think it is not quite true. It is a little lower than that, but not that much lower.

Mr. Villeneuve: So the 50 per cent that we see on the surface is not necessarily the correct figure based on the way it was happening in the past.

Mr. Matthews: That is true. You would get a different answer.

Mr. Villeneuve: Thank you.

Mr. Fleet: I am hoping you can clarify some things for me. I have had some difficulty understanding some of the points being made. I would like first of all to deal with the issue of a comment that is in your statement. You speculated there would have been a retrenchment by both countries if there had not been a confirmation of a two-way automotive trade agreement. What retrenchment by Canada are you talking about?

Mr. Matthews: I am not sure I understand your question.

Mr. Fleet: It is your statement. I am looking on page 2, in the second paragraph, first sentence. You said there would be a retrenchment by both countries if there was not confirmation of the two-way automotive trade. I am asking, what retrenchment by Canada are you talking about?

Mr. Clark: Let us go back a little bit and remember that our industry in Canada grew out of a very high protectionist scenario. In 1912 and 1914, tariffs were 35 per cent and 40 per cent. That is the way we got factories built in Canada. Ford began ferrying parts across the Detroit River into Windsor to set them up in Walkerville and build vehicles there in 1904, I think it was. That is the way every industrialized nation has moved.

We kept very high tariffs, even though they came down somewhat until the war, and then they went back up again. They came down a tiny bit after the war. Then the GATT got going and they were gradually reduced. Finally, in 1963, when the automotive industry was really starting to move forward in North America, we wound up with this very high tariff situation and, as we said earlier in the statement, a very high-cost, inefficient industry in Canada, building only for the Canadian market. The prices were staggering compared to what they were in the United States. You may not be old enough, but I am, to remember how much it would have been preferred by Canadian consumers to have gone down south of the border. However, by the time you pay the duty, you are way back up again.

Instead, the industry went to Ottawa and said: "Look. We're protecting with these tariffs all kinds of suppliers of all kinds of matériel in Canada, which we're not producing in Canada. If we're not making transmissions in

Canada, and we have to import them anyway, and you're not protecting anybody with a high tariff, let's get rid of the tariff." Ottawa said, "That makes some sense. Let's do it this way: If you increase your exports to the United States over the base year of 1962 or 1963, whatever you want, we'll give you an ability to bring in duty-free the value of those transmissions equal to the increased value of your exports." Then they said the next year, "That's working pretty well, let's include engines in that program," and that came about.

In 1964 in the United States there was a case, which had to be brought sooner or later under their countervail law of the day. An outfit called Modine Manufacturing in Wisconsin said: "This is not right. That's an export subsidy that's being provided by this duty remission, if you will, and by law the United States government has to levy a duty equal to that subsidy." The two governments said: "This thing has been going along fairly well. Why are we going to retrench into a very high tariff operation? Let's move forward." We got the auto pact in 1965 and look at what has happened since then.

What we are suggesting in our statement is that there are only two ways to go. Either you go further, integrate the two industries on both sides of the border even further, and hope that gets you to where you want to go, which is to absolute international competitiveness over time. That will keep the industry in Canada. If you do not do that, and you find that somebody else, say the Congress in the United States--not the administration, but we all know that the United States system is based on equal powers, but split--Congress, you may recall, was making a great deal of noise about how large their deficit in trade was. The surplus that Canada runs with the United States in total trade is second only to that which is run with Japan.

Mr. Fleet: I appreciate the comments and the advantage of it, but I do not think it answered my question.

Mr. Matthews: Let me have another try, then, and I will try to approach it from another standpoint. Are you familiar with the chicken war tariff?

Mr. Clark: If not, you should be.

Mr. Fleet: I guess I am going to learn. Go ahead.

Mr. Matthews: As a result of some trade difficulties with Germany, the United States imposed a 25 per cent tariff on small trucks imported into the United States. That tariff is called the chicken war tariff because it is a result of a discussion that was going on about chickens. They decided to retaliate by putting high-level tariffs on trucks.

Mr. Fleet: Essentially countervailing.

Mr. Matthews: Essentially, except it is not really called countervail because they did not have to go through that--in fact, it was trade retaliation. That tariff still exists today. What we are suggesting is that if we do not have a free trade agreement, we will have that kind of trade retaliation. That is what we call retrenchment. I think that better answers your question.

Mr. Fleet: You were projecting that somehow we were going to retaliate.

Mr. Matthews: I think what we are saying is that if you do not go forward, you go backward, and backward, as Mr. Clark has just pointed out, the way we solved these problems in the past was high tariffs. If Congress in the United States became more protectionist and imposed tariffs or increased the difficulty to get Canadian products into the United States, we believe the Canadian government would probably do something in retaliation. That is what we call retrenchment. Does that answer your question any better?

Mr. Fleet: Not much.

Mr. Matthews: We took it from two sides, so I guess we are inadequate.

Mr. Fleet: Let me ask a somewhat different question. Are you saying the United States was about to cancel the auto pact and we were about to enter a trade war as a result?

Mr. Matthews: I do not think we are saying that. I think what we are saying is that there is no such thing as the status quo, and if you do not move forward, you move backward. You cannot sort of dog-paddle and stand still.

Mr. Clark: But keep in mind that Congress was having a hell of a time with their trade deficit. It still is, but it is beginning finally to turn around, after the change in the dollar rate over the last three years.

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Mr. Fleet: Is it fair to characterize your position, then, that out of fear of what was going to take place in the United States, we had to do something because we were about to get hammered?

Mr. Clark: Yes, but no, because there is more to it than that.

Mr. Matthews: It is a pretty good way to put it.

Mr. Fleet: You are not in politics, are you?

Mr. Clark: No, not yet. Tap dancing on desks we do.

Other industries are catching up quickly now, but I think the automotive industry could be characterized as having been in the vanguard of those seeing the future. The future is: "Hey, you are going to get competition from everywhere in the world and if you do not step up and meet that competition, you are going to have to operate from some place else other than in Canada or the US or wherever." That is the movement that has been going on for many years now, and, particularly in Canada, we have been striving to make sure that we continue to be competitive on a global basis. That is where it starts from.

Then you ask: "Can you go against a free trade deal with the biggest purchaser of your goods if it is offered to you and if it looks good to most of the industry? How can you possibly turn it down?"

Mr. Fleet: I suppose if we had a free trade deal before us, we might have that consideration, but I think there is a lot of evidence that this is not a free trade agreement.

Leaving that argument aside altogether, let me ask you another question related to the auto pact. I may get some more history here for my own benefit.

Mr. Ballinger: You could definitely use some.

Mr. Fleet: No question.

I understand that the current process is such that if a company does not qualify, however one defines the formula, the company gets penalized and there will be a duty imposed, or one could be imposed. Is it your position as an association or as the Ford Motor Co. that all of those enforcement provisions remain in place?

Mr. Matthews: Yes. I believe the auto pact is unchanged by the free trade agreement.

Mr. Fleet: In all respects?

Mr. Clark: Yes, except it is no longer open to others to join it.

Mr. Matthews: I think the only change is that a company could choose to trade under the FTA instead of under the auto pact. That is a possibility. Someone might say, "We think the rules for the FTA that are applicable to the transplants are more applicable to our situation, so we will opt out of the trade pact and we will operate under the FTA." I believe that is possible.

Mr. Clark: Yes. There is an option now whereas there was not before. You were either in the auto pact or out. Now there is another arrangement that allows duty-free access to the US market and vice versa.

Mr. Matthews: Another good reason for supporting the increase from 50 per cent to 60 per cent, I think.

Mr. Epp: I just have one question, gentlemen. Under the auto pact there are essentially two categories; there are the waivers of custom duties and then there are the export-based waivers of custom duties. I am interested in two aspects of this.

For instance, the Toyota plant in Kitchener-Waterloo-Cambridge is under the second category. The CAMI Automotive Inc. plant is under the first, and you alluded to it earlier. Why is this so? Second, what are the disadvantages to Toyota from being in the second category, if there are disadvantages?

Be very open, because I am from Waterloo.

Mr. Clark: A great spot to be from.

Mr. Fleet, maybe we should go back to the origin of the orders in council themselves which created this duty remission arrangement. It goes back to the Modine case earlier. That is really what it is.

The original orders in council began to be issued in quantity, say, in the 1960s, when we first saw some of the imported vehicles coming in from Japan and more from Europe and so on. When the volume started to creep up, then there was this opportunity, it was felt by Ottawa. So they said, "Why do we not offer an opportunity for those companies to buy parts in Canada and export them, and we will give them credit for the Canadian value added in those exports and they can reduce the value upon which customs duties are going to be placed on the vehicles that they bring in from their home country?" A few parts were bought, not too many.

The next phase was: "Let us consolidate this program into something and make it more official on the federal government level." So they clarified some of the requirements, the language and so on, and they reissued them.

Then there was the thought, "Maybe what we could do is use this to provide some production basis in Canada too. Why do we not set up kind of a staircase which will hopefully lead to auto pact status." This is as recent as 1985. They said in Ottawa, "Unlike what has gone before, let us make the export of parts bought in Canada to the US eligible to earn the credit." Immediately, you are into countervail, because that is an export subsidy just like we had in 1964. So the Americans were quite upset at that when they understood it.

If I can digress a little bit, my understanding is that the Tokyo auto show of October 1985 was where this first came to light. I got it coming back through the Tokyo auto show on the basis that the Automotive Parts Manufacturers' Association of Canada, headed by Pat Lavelle at the time, had a booth at the Tokyo auto show and right next door to it was the state of Michigan.

Our Canadian parts manufacturers were saying: "Hey, come on in and join us, Mr. Japanese manufacturer. Let us have a joint venture together. How about buying some parts from us? By the way, if you buy parts with Canadian value added in them, you can remove the value for duty on your vehicles coming to Canada by the amount of that CVA." The Michigan people were saying, "What the hell is this order-in-council business, this duty remission thing?" That is how it started, as far as I am concerned. Now, the Americans are not that slow off the mark, so they began to say, "Look, this thing looks terribly much like 1964."

It was not of big moment, because no one was buying very much in the way of parts from the Canadian parts makers anyway and they were earning very little credit, but the threat was there. That is at the same time, as you must recall, as Al said earlier, that Michigan was losing business to the Sunbelt states and all those northern tier states were having troubles, in the steel industry as well as the auto industry and others.

We objected in writing many times to Ottawa. Their thinking, in our view, was: "You are not going to have an arrangement that says, first of all: 'Toyota, Honda or European companies or whoever, you come in and buy some parts here. For every dollar of Canadian value added in the parts that you export, we will give you 70 cents that you can apply against the value for duty for your vehicles coming in from wherever'."

Then they said: "Go to the next step. Announce a plant of significant magnitude"--'significant' was never defined--"and then we will give you dollar for dollar between the time you announce your plant and when you put the plant in. When you get the plant up and running, we will expect you to operate under the auto pact."

However, this staircase never worked. We said, "You are never going to get that group to even the second stage, let alone the third stage, with any frequency at all." And that is exactly what has happened.

So now what we have is that the CAMI Automotive operation of General Motors-Suzuki has an arrangement the same as Honda has, Toyota has, and American Motors had before they were taken over by Chrysler. It is a memorandum of understanding for a project, which is the basis upon which there

is or is not government assistance, federally, provincially and so on. The memorandums of understanding on the part of CAMI indicate that they had undertaken to meet the auto pact. I think it was within a year of their setup, and that was done in 1986, which preceded the free trade agreement. That is why they are in the first grouping of companies.

The reason why all those other companies are in there is that those were companies designated as being Canadian producers under auto pact provisions. They had a Canadian-value-added criterion and they had a production-to-sales ratio criterion. If they met them, they could have the same privileges as Ford or General Motors or anybody else. We cannot kick them out of bed. They have had this arrangement for as long as we have.

So the first category is auto pact, even though the language does not sound like it.

The second category is the nonproduction-based, export-oriented orders in council. They go away by 1994, and earlier if it is agreed that something could happen and the company and the government get together on some sort of an arrangement. Then they are all gone, including the third one, which is the production-based arrangement that Toyota and Honda have, by 1998.

Mr. Chairman: We will have to let it go at that. It has helped us a lot. It may not have seemed to at some times during the course of the hour because it is a very complicated set of rules, but we appreciate your assistance. It is obvious that, as an organization, you are satisfied with the agreement, with the exception of the one element that you are still lobbying on. We appreciate your coming here and helping us.

Mr. Clark: If there is anything else we can help the committee with at any time, we would be glad to do so.

Mr. Chairman: The document you read into the record, do you have copies of that?

Mr. Clark: Yes, I do.

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Mr. Chairman: We could perhaps distribute those. Thank you.

Our next witness is the Ontario Federation of Labour. Gordon Wilson is the president and he is here. The brief has been distributed. No, I am sorry, the brief has not been distributed. With Mr. Wilson is Mr. Joe Surich. Because of the complexity of those last questions, I let the matter slip over the hour so perhaps you can lead us through your brief, hopefully highlighting it, and then we can get on to questions.

ONTARIO FEDERATION OF LABOUR

Mr. Wilson: Thank you, Mr. Chairman. You have already completed the introductions. Let me begin by thanking this committee for the opportunity to allow us to appear before it. Our view will be somewhat of a departure from the previous group before this committee, the Motor Vehicle Manufacturers' Association. I am sure that the committee has had that kind of experience throughout your deliberations.

We have a rather extensive brief, but I think it is important, at least

from our point of view in appearing before this committee, that we go through it. If I can begin, I will read it to the committee.

The Ontario Federation of Labour has opposed the negotiation of a bilateral trade pact with the United States strongly and consistently since the federal government announced its determination to pursue an agreement shortly after the 1984 federal election. While these hearings are directed at determining the appropriateness of the agreement finally signed on January 2, it seems worth while to reiterate the principal grounds on which our opposition was framed. The specific details of the pact do nothing to undermine these principles.

The initial grounds for opposition: We expected, and continue to expect, significant job losses in Ontario's manufacturing industries as a direct result of the elimination of barriers. These losses will occur in those industrial sectors which are dominated by branch plants of US multinationals and in other sectors in which Canadian producers are small and relatively inefficient.

Many of these losses will be a direct result of US firms shifting production to plants in the US which have large excess capacity--at last report, the December figures I believe, about 18 per cent in manufacturing generally and 32 per cent in the automotive sector--and are able to easily supply the Canadian market. Rationalization on a North American basis must lead to the loss of manufacturing employment in Canada, and particularly in Ontario.

In a free trade situation, those Canadian producers who wish to stay in business will be forced to seek to reduce costs in Canada. These costs include the direct labour charge, but they also include the much superior standards of work which prevail in Canada as opposed, generally, to the United States.

The ongoing process of seeking improvements in our standards of workplace health and safety, for example, would be stalled because of the perceived costs associated with this issue. Similarly, the standards for severance and the general treatment of workers contained in our employment standard laws and in the Labour Relations Act would either be stalled in their process of development or even rolled back. Under bilateral free trade, the conditions of work in Ontario and Canada would be reduced at major social and human costs.

Canada has an economy with a greater proportion of foreign control than any other in the world and is extremely heavily dependent on US markets, technology, manufacturing techniques and management techniques. A bilateral free trade agreement has the effect of cementing the dependency relationship permanently. Where the hope for greater Canadian economic independence might have been dim before free trade, it is now lost entirely. Free trade with the US implies and carries with it the complete and final orientation of the Canadian economy to that of the United States.

The very act of negotiating an agreement with a huge neighbour has the effect of undermining Canada's capacity to act as a sovereign nation in a number of crucial respects. Under free trade, it is not possible for the government of Canada to undertake serious measures to direct the economy in areas which contradict American needs and policies.

It is probably not possible to expand our system of social services in the public sector when the US approach, even in crucial areas like health

care, is determined to deliver those services in the private sector and in a profitable way. Regional subsidies and incentive schemes are clear cases of nontariff barriers, and under free trade they must be subject to the approval of American authorities if they are not to face the determined action by the US government.

In the international arena, Canada would be clearly viewed as a junior partner in all negotiations concerning economic life, initially in the General Agreement on Tariffs and Trade and in most other areas over time. Complete economic dependence implies political dependence in the not-so-long run.

The negotiation of a more or less comprehensive agreement with the United States has a much more permanent result for Canada than it does for the US. Canadian business will restructure relatively quickly in order to survive or even take advantage of new opportunities in the US market. Once the process of undoing the east-west orientation, which the Fathers of Confederation sought to foster, begins, it cannot be reversed. As a result, no future government in Canada will be able to undo the agreement because of its effects. Any future American will be able to do so, or threaten to do so, because US gains will be less and the potential costs much smaller. The potential political constraints on any Canadian government in the future will be obvious.

Consequently, the efficacy of the agreement might be analyzed at two general levels. The first must determine whether the twin objectives of security of access and a workable binding disputes mechanism were reached. The second must examine the potential for Canada as a nation and for the Canadian people to build a secure and wealthy future inside the new North American context which this agreement creates. In our view, the agreement fails on both counts.

The dispute settlement mechanism and security of access: The outcome of any set of negotiations is likely to hinge on the relative power of the two parties. On any measure of relative power, the negotiations which yielded the Canada-US free trade agreement are grossly out of balance. This lack of power or balance in bargaining strength on Canada's part is inevitable in virtually all bilateral negotiations with the US. If the best possible agreement was one which left both parties in a "win" situation, many of us assumed from the beginning that the best outcome was not a possible one.

It was also universally assumed in Canada, once the process was underway, that some form of dispute-settling mechanism with binding force had to be an essential ingredient of any agreement. This concern was heightened by the outcome of the softwood lumber issue in three respects.

First, there is no clear evidence that the nature of public treatment of the lumber industry in Canada had changed substantially from earlier periods in which it was found there was no need for countervail against Canadian softwood lumber exports to the US. The only condition which had clearly changed in the market was the decline in the relative value of the Canadian dollar due to market forces. Major changes in relative currency values allowed Canadian exporters to penetrate the US market to an unprecedented level. Specialists in international trade have suggested that GATT would have ruled against the US in this instance. However, the Canadian government chose to abort the process by imposing a 15 per cent export tax on softwood lumber products.

The export tax brings us to a second, and perhaps more crucial, point.

The export tax gave the US lumber industry substantial control over Canadian forest product pricing policy. This entailed a profound impairment of Canadian political sovereignty. In the process, the government of Canada signalled US interests that it could be coerced into adopting measures which reduce the competitiveness of our exports at no direct cost to the US government.

The willingness of the government of Canada to adopt the export tax in a situation in which most observers believed justice was on the Canadian side signalled a number of highly undesirable tendencies. It signalled the fact that our government was admitting that the Canadian treatment of the forest products industries involved substantial unfair subsidies. It also signalled the fact that the government of Canada was prepared to cede massively in areas which had clear sovereignty implications. Finally, it signalled to US negotiators the fact that they were bargaining with a weak and uncertain adversary.

As a third point which flows from the softwood lumber episode, let us state the obvious. As we sit here, more than \$6 billion worth of Canadian exports to the US face countervailing or antidumping duties. The equivalent numbers on the Canadian side have American exporters dealing with a mere \$200 million in such duties. The tendency to use countervail in the US is much greater than anywhere in the world, exceeding the Canadian rate of cases by a margin of about 20 to one. In virtually every case, the basis for countervail action lies in claims about unfair subsidy.

From the US perspective, we have producers in the most powerful economy in the world being victimized by firms in other countries which enjoy unfair subsidies. From the perspective of the rest of the world, what is involved here is simply protectionism in a nontariff guise.

Since there is little evidence that the pace of countervail actions being launched in the US is likely to slow, the value of the disputes settlement mechanism contained in the free trade agreement must be considered in light of the subsidy and countervail issues. On these grounds, the mechanism offers very little comfort to Canadian firms or Canadian workers.

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We will not overstate the obviously correct argument that the mechanism is binding only to the extent that both parties are required to use it. It is clearly not possible to establish a joint body which is binding on both parties to the extent that it has the capacity, effectively, to legislate for national governments. Joint bodies of this type can make recommendations for changes which obligate national governments to move, but they cannot force them to do so. Given that the disputes process is being established out of the treaty obligations taken on by both parties, it may be safe to assume that both parties will live up to their obligations as they flow out of panel decisions.

At the same time, there are clear and immediate problems with the mechanism. Not the least of these is the time which has been left for the completion of the process. The final agreement allows for 315 days for the delivery of a ruling and then provides for an additional extraordinary challenge mechanism which can further drag out the time available for a definitive result.

Further, the panel will be severely restricted in the grounds on which it can issue decisions for at least the first seven years. Since it will be

restricted to determining whether or not national law, broadly defined, was followed; it will be totally reasonable to assume that, in most instances, it will be determining whether or not American law was followed. After all, most countervail cases will continue to arise in the United States.

The disputes mechanism, therefore, offers scant comfort to Canadians. The costs associated with unfair and capricious countervail actions in the US, which are borne by often relatively small firms in Canada, will clearly continue. Melvin G. Clark, a Canadian trade adviser, has correctly argued that "weight should be given to the costs that arise from the fact that, even when the administration does not increase protection, petitions for it harass Canadian exporters, can intimidate them into exporting less than would otherwise be the case and can divert investment in plants and equipment to the US."

The long time frame associated with the disputes mechanism in the agreement exacerbates the problem of costs for small Canadian producers seeking to export to the US market, and there is no reason to assume that these conditions will change at all in the post-free-trade environment.

If we further take into account the fact that negotiations on the pivotal subsidy questions will continue for the next seven years, even less comfort can be found in the current arrangement. The harassment of Canadian exporters on the subsidy ground can be expected to continue unabated. The disincentive to seek markets in the US for Canadian products will also be maintained. There will continue to be a direct incentive to locate production on the US side of the border. This last incentive will be immeasurably strengthened by the ability of US firms to export into Canada with lower or nil tariff restrictions.

The only real hope for effectiveness of the disputes panel process lies in the potentially chilling effect on protectionist reactions in the US. Fasken and Calvin have made this point in a brief for the Business Council on National Issues, and while such an effect might be observable in time, it seems unlikely. For example, we can only speculate about what the effect might have been on the countervailing actions against softwood lumber.

The potentially chilling effect must be set against the significant heating effect of job losses in US industries facing effective competition from some Canadian industries. It seems highly unlikely that US producers would feel constrained if they are losing domestic market share to what they perceive to be a competitor who is unfairly subsidized. It seems at least as unlikely that American workers would restrain themselves from introducing heat into the process. Just as an aside--and I think the question came up with the previous group before this committee--for your information, the American Federation of Labour/CIO has adopted a position in opposition to the trade agreement.

Legislators facing the frequent need to get re-elected are more likely to respond to heat from their constituents than a chilling effect from a dispute settlement process.

Under these circumstances, it appears to be highly likely, if not certain, that there will be an immediate effort to drag proceedings out to their maximum time limit and a further effort to induce the US administration not to act speedily in response to findings by the panel. We would suggest that an obligation entered into in good faith will be exceedingly difficult to deliver.

We now come full circle to the question of bargaining power. It was clear from the beginning of this piece that the strength of government in Canada does not match that of the US. It is equally clear that the subsidies negotiation process will see the government of Canada with even less power by the time this bargaining round reaches its finale. By the mid 1990s, all those Canadian industries which hope to survive and grow in a continental free trade arrangement will have made major rationalizing and restructuring decisions. In many cases, the reorientation of firms to that new market context will be completed or well under way.

The only legal sanction available to the government of Canada at that stage will be the ability to walk away from the process and to abrogate the agreement. But this will be an entirely hollow power, since the costs of going back would be even more enormous than the costs of going forward will already have been. We can safely assume that American negotiators will know this as well.

Many claims to the contrary, there are substantial cultural differences between Canada and the US. This is especially true in the way our state has interacted with the economy as opposed to theirs. The subsidies in Canada flow from these differences in approach, just as the substantially different subsidies in the US flow from differences in approach and sense of obligation to the domestic economy and the international system.

It should also be specifically noted here that huge American military expenditures, which currently exceed 50 per cent of Canada's gross national product, are used as a major form of subsidy to industry. This is significant in many areas, but particularly in research and development and in the modernization of production facilities. US military expenditures are even reported broken down into spending per congressional district.

In turn, this implies that the subsidies code to be negotiated will be much more likely to restrict the capacity of Canada to act than it is likely to restrict the US administration. If bargaining flows out of a power relationship, then most of the power will be on the US side.

The fatal flaw of the dispute settlement mechanism, from our perspective, lies in the fact that it will not have the meat needed to make the decisions of meaning until there has been settlement on the subsidies question. It appears to us entirely likely that this settlement will not be favourable to Canadian interests and will not be in accord with Canadian approaches to economic development.

In so far as the disputes settlement mechanism is fatally flawed, it cannot ensure security of access for Canadian producers to the US market. It is equally the case that the agreement has achieved virtually no Canadian exemption from pending restrictive trade legislation in the US, including the omnibus trade bill. Further, there is no evidence that the agreement will have any significant impact on the tendency of US firms to use the procedures of countervail and antidumping in the United States International Trade Commission for simply harassing Canadian firms.

As such, the agreement fails to achieve its two public objectives of security of access and an effective and binding dispute settlement mechanism. So long as there is no agreement on the definition and application of the subsidies code, and so long as Canada can still be caught in the net of restrictive practices, there can be no valid argument in favour of secure access.

It is a bad deal for these times. The negotiation of the free trade agreement with the US was carried on against the background of fundamental shifts in the world economy and in the nature of the relationship between actors in the world trading system. The growing internationalization of the production of goods, particularly those destined for mass markets, coupled with the effects of a grossly overvalued American dollar, has created major changes in trade balances and caused unprecedented instability in world currency markets.

The internationalization of production was also propelled by the relative ease with which modern technologies are transferred to the more recently developing economies. This led multinational firms to move production around the world in a constant search for lower costs, especially labour costs. As a result, it is rare today to find consumer products which are entirely produced in a single country. In addition, technology in itself provides only a transitory advantage because of the ability of firms located in many countries to adapt.

At the same time, capital flows around the world escaped the control of national governments, with huge pools of Eurodollars seeking the best possible day-to-day return without the constraints of public policy in any one country.

So long as the US dollar continued to be overvalued, and along with it the Canadian dollar in relation to all currencies except the American, there was an inevitable tendency for US exports to decline while imports increased dramatically. In turn, financial crises in the best markets for US goods in Latin America meant that those sources of export market were massively reduced for US producers.

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Added to the reduction in potential export markets for the US and the relatively attractive price of imports, was a set of public policies which induced US consumers to engage in an unprecedented spending spree. The experiment of Reaganomics failed in the sense that it did not increase capital investment but rather created a major spending boom by consumers which reduced savings to dangerously low levels. Large federal government deficits in the US were covered through the inflow of money from abroad, turning the US into a net debtor country for the first time in several generations. Simultaneously, trade deficits moved to levels above US\$150 billion annually.

The combination of these factors made it inevitable that there would be a major crisis of investment, production, productivity and modernization in the US. Along with these came, inevitably, the shutdown of large sections of traditional industries and the loss of what has been estimated at nearly six million industrial jobs. While the consumption-led boom in the US replaced these jobs, it tended to replace them with substandard jobs, the majority in the service sector, paying less than the poverty line.

Under these conditions, it is not surprising that there would ultimately be a major protectionist backlash in the US Congress. Politicians, faced with the need for frequent re-election, are unlikely to be willing to stand by while their constituents lose work and communities are ravaged. The outcome was a series of protectionist bills, including the infamous omnibus trade bill. For Canada, the outcome led to specific actions such as the United States International Trade Commission reinterpretation of data with respect to softwood lumber operations in Canada and a subsequent export tax, the countervailing duty on some fish products, and generally intensified harassment of Canadian producers on many fronts.

The Canadian government responded to this perceived and partly real threat of American protectionism by arguing that the only logical alternative was for Canada to join the American side of the moat before the drawbridge went up. Canada's dependency on export sales in the US is generally well understood, although the overwhelming dependency of Ontario is less clearly understood. Ontario is the second largest US trading partner after Canada, with more than 90 per cent of our exports flowing to the US. In the years of progressively greater American trade deficits, Canada's surplus of goods trade continued to grow, although this was largely offset by a major Canadian deficit in services trade.

At one level at least, Canadian fears that we might be denied access to the US market was translated by federal leaders into a determined drive for the agreement which was signed on January 2. The rationale in the beginning was to seek ways of gaining relatively secure access to our largest foreign market. Later in the debate, this argument was augmented by a claim that a binding dispute settlement process had to be an essential ingredient of any such agreement.

Coupled with these immediate objectives were a series of arguments which can be broadly characterized as flowing directly from often-flawed assumptions about the logical road for Canadian economic development and a strongly ideological bent on the part of the federal government to seek to restrain government activity in the economy. Immediate concerns about a possible closing of traditional markets became the public rationale for a policy direction which represents a major shift away from what had become the norm over the last 50 years of Canadian development.

If the central tendency of the emerging world economy is one of interdependency, then the bilateral agreement with the US must be seen essentially as a denial of that tendency. Implicitly, the agreement deepens dependency and has the effect of making Canada less a world trader than we are now in high value added goods. Equally implicitly, the agreement integrates Canada with the US, seeking to insulate ourselves from the rest of the world. In this sense, the decision to pursue free trade with the Americans is one driven either by fear of the world or by a profound admiration for the American way of doing things. If fear is the incorrect motivation for the framing of public policy, admiration for a colossal economy in severe difficulty is also entirely misplaced in seeking to frame economic policy.

The success of economies in Asia and Europe in penetrating the American market and in taking away US export markets is based on a set of institutional and other arrangements which have largely abandoned the American way. Most highly successful exporters among the industrialized countries have been able to achieve their current standings through the application of social and labour policies, which develop the social infrastructure and make major investments in training, education and health. Most have recognized the limitation implicit in entirely free markets and have used the power of their governments to intervene and to direct investment into socially critical areas, including research and development.

Among the major industrialized states, only the Americans have chosen to cleave a path which leaves it to the more or less free market to encourage economic development. That path led to the consumer-led boom of the last few years. It has not led to increases in investment in productive capacity, nor has it restored the US to its position as the dominant industrial power in the world trading system. That path is perhaps best characterized as one of dis-saving.

In favouring integration with the US, the Canadian government has chosen to throw our lot in with an economy in decline. It has also done so by leaving the major avenues for multinational negotiation and taking on a powerful adversary on its own. Finally, the bilateral option abandons the possibility for finding a future for Canada which recognizes the world and seeks to reshape our industry and our policy in order to take advantage of, and grow in that world.

The policy objectives behind the deal: In the course of the debate about the free trade proposition, it has been fashionable for those who favour a deal to argue that their opponents are fearful of the future, afraid of a little healthy competition and that they lack the confidence to look outward. Yet the hunt for the bilateral option with the US is itself motivated and driven by fear about a potential Canadian future which seeks to break with the dominant trends of economic development. It is also one which declares to all that the route planned and executed by the Fathers of Confederation is no longer a viable one. If the implications which can now be drawn from the international economic scene are at all valid, bilateralism with the US is in fact the coward's path. It is a denial of the implications and realities of full interdependence in the world.

What has been lost in the flow of rhetoric is a clear sense of the futures which this nation has available to it. Given the fact that an overwhelming majority on all sides of the issue understand the far-reaching impact of recent changes in the world economy, and of those still to develop, it should be possible to engage in a debate about desirable futures. Bilateral free trade with the US is one of those futures. However, the actions of the federal government have led the debate entirely on to that ground, effectively precluding the potential for discussion of other serious alternatives. In our view, bilateral free trade with our southern neighbours is the least desirable of possible futures.

Article 26 of the General Agreement on Tariffs and Trade allows for bilateral negotiations where those lead to greater economic integration between the partners. There can be no doubt that the deal signed on January 2 will have the effect of paving the way for the almost total integration of the Canadian economy into what may well turn into a Fortress North America. This trade deal will complete the process that started almost at the beginning of Canadian history, a process which fostered ever-deepening dependency of Canada on the US.

In previous briefs to committees of this Legislature, we have argued that important lessons were to be drawn from Harold Innis's work on the potential for the development of a staples-based economy into a fully mature industrial one. Innis had serious doubts about this possibility and advanced the proposition that the initial dependence on foreign capital, which was necessitated by the huge costs of infrastructure development in an economy built on the export of staples, was likely to lead to a major dependency on imported technology and production methods.

Canada's relations with the US have always been heavily characterized by dependency, for capital, for markets and for technology. The bilateral free trade route that has been chosen by the federal government must inevitably deepen that dependency and will lead in the not-too-long term to the more or less full integration of the two economies.

While it would be foolish to deny that Canada would always, under any scenario, be closely linked with the US in trade and other relations, the

bilateral route will complete the process of full integration. Last October, Clayton Yeutter, the American trade ambassador, put the point succinctly: "The Canadians don't understand what they have signed. In 20 years, they will be sucked into the US economy."

It is not entirely clear which would be the greater condemnation of the Canadian negotiators, that they did not understand what they were signing or that they fully understood and signed anyway. Bilateral free trade with the US is an option available to Canadians and it is one which has distinct and clearly predictable outcomes. Any argument which suggests that there are not profound implications for the sovereignty of government in Canada is naïve.

Supporters of bilateral free trade with the US advance this option as the only possible one under the current circumstances. Even a cursory examination of the realities of today's world suggests others.

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If we eliminate the pious hope that things can stay the same as they are as a reasonable option, a dynamic economy like ours, interacting with a far-sighted and active government, still has choices which do not guarantee absorption in the US. We are confronted with some fundamental choices between past practice and a more radical attempt at encouraging the restructuring of the Ontario economy. Past approaches have tended to seek development on the basis of large investments from outside, have focused too extensively on resource development and have often failed to understand the crucial role government must play in the establishment of a regime which creates institutions designed to build the infrastructure necessary for modern economic development.

There have of course been exceptions, and the Ontario economy has been more effective than most in producing jobs for newly entered members of the labour force. Nevertheless, major deficiencies can be readily identified in a number of areas. Serious and continuing shortages of affordable housing restrict the potential mobility of the labour force and its capacity to react to changes in the environment. In some urban communities, the available rental accommodation has now approached zero. This has the immediate effect of driving prices to unacceptable levels and has the further effect of helping to create serious labour shortages.

In a similar vein, serious problems in the provision of highways and the public transportation facilities bring with them costs which undermine the efficiency of the economy as a whole. The shortage of housing, combined with a major deterioration of commuting times, has the effect of breaking the potential for economic expansion in the entire Golden Horseshoe region. Combined with these pressures are all the others associated with rapidly growing urban regions--environmental difficulties and such mundane but nevertheless critical problems as garbage disposal.

These pressures call for provincial policies which must have a number of objectives. First, some effort must be made to relieve the obvious pressures evident in major urban areas, including the immediate transportation and housing shortages. Second, provincial policy must seek to diversify the economy of the less-developed regions, both to increase employment opportunities there and to relieve some of the pressures on the Golden Horseshoe.

Current shortages of construction labour and materials dictate that

massive action on housing and transportation must be carefully planned and implemented. The critical point, however, is that longer-term planning in the province must seek to inject projects in these areas into the economy in times of economic slowdown. Such planned infrastructural improvements should also include the provision of a more sensible and diversified health care system, creating facilities capable of chronic care so as to reduce the pressure on intensive care facilities. A further need can be clearly found in the environmental area.

Ample evidence exists concerning the failure of industry in Canada and Ontario to implement effective plans for research and development. In many cases, even technology already available in other parts of the world has been only incompletely implemented or adapted to the domestic situation. Further, spending on research and development lags behind most of the industrialized world. While it is almost a cliché to stress this point, the obvious clearly must be restated and pressed.

Our economy, in most sectors, has failed to be as adaptable as many others. Branch plants helped to create this problem. The closing of two tire production facilities in the province, for example, was made inevitable because of the extremely high level of foreign--largely American--ownership in the industry. These foreign producers made the decision many years ago to stop serious investment in Ontario facilities, leaving us with plants, capital equipment and, in the case of Firestone, products which could not be produced and sold competitively. There are numerous instances of Ontario branches receiving as new equipment machines which had been replaced in US-based facilities by state-of-the-art equipment.

Data produced by the Ministry of Industry, Trade and Technology show massive Ontario deficits in high-technology products while our exports tend in large part to consist of products with a relatively low technological content. While the automobile industry must be classed as high-tech, we tend to be a platform for the assembly of vehicles. Design work, research and development and so on are done elsewhere.

In so far as survival in the new world order depends on adaptability, on the application of the best of new technologies and processes and on the dramatic expansion of Ontario's capacity to produce goods with a high value added content which can be sold worldwide, the situation calls for a serious provincial strategy on science and technology. We recognize that this is easier said than done in the context of a near vacuum of effective policy at the federal level.

Difficulties are compounded by the fact that the free trade agreement will have the direct effect of simply making us better customers for American high-technology goods. In the context of a fully continentalized economy, there exists little rationale or incentive for Canadian-based research and development.

It is easy to be critical of efforts in the whole spectrum of educational issues. Our apprenticeship system totters continuously on the edge of oblivion, while the federal government threatens to push it entirely over the edge. Employers refuse to make significant commitments to training and upgrading their labour force, preferring to poach trained staff from smaller competitors.

The process of improving the state of our skills training system must seek to create a genuine training culture. Such a culture assumes that

learning new skills is simply part of the ongoing process of life, that lifelong learning is critical. Further, it must seek to establish principles which include the primary recognition that the market for training is determined both by the needs of employers and by the needs of working people.

Structures and institutions which deliver lifelong learning in the context of a training culture must explicitly recognize that the participants in the process must drive it. Provincial government policies therefore must depart from the dominant model of seeking to deliver some funding in response to employer demands to one which delivers programs and the necessary funding in response to all possible market demands.

The creation of such a training culture and the achievement of its objectives will require significant new resources. Once again, some of these resources and the policy leadership must come from the provincial government, which must seek to overcome the barriers created by flawed federal policy.

The choice of bilateral free trade as the option for moving Canada into the next century and encouraging the restructuring of Canadian industry is an effective denial of the realities of developments in the modern world economy. In deepening and extending our dependence on American policy and American developments, we have chosen to link ourselves with the one major industrial economy in the world which appears to have a complete incapacity to recognize the advantages of a fully developed and dynamic relationship between government policy and private markets, between public and distinctly private interests.

Bilateral free trade severely limits the options for Canadian policy in a wide range of areas. These include publicly directed industrial and training strategies, innovative uses of energy policy, effective research and development regimes and serious efforts to develop world markets for Canadian value-added goods.

The agreement also places direct restrictions on some of the instruments which have traditionally been used to encourage desirable forms of economic development, such as crown corporations. It seems highly unlikely, for example, that a firm like Ontario Hydro could have been developed in the public sector under the proposed regime. No one will deny the crucial impact of Hydro on the economic development of the province from its beginning.

By locking us into the American path of development and by seeking to make us a part of fortress North America, the free trade agreement denies the potential there might have been for Canada to develop a more effective and innovative domestic industrial base. It also effectively denies any real potential for reaching out to the world and trading, on a fair and equitable basis, Canadian manufactured goods.

Mr. Chairman: Thank you. That was quite a general essay.

Mr. Wilson: We have had a lot of practice, Mr. Chairman. I think it is about our 352nd presentation on free trade.

Mr. Chairman: I appreciated a number of your quotes and I thought Mel Clark was just my secret source of encouragement. You also mentioned Clayton Yeutter, but that always should be balanced with Simon Reisman's comments that the Americans were acting like an underdeveloped country or something of that nature. They get along well, in any event.

Are there any questions?

I should tell you that when you are talking about the problems of housing, I was thinking about Brigid Pyke, who was here with the Ontario Federation of Agriculture this morning and pointed out that their problems may be a little greater than labour's because they cannot yank a farm across the border.

Mr. Surich: No, but they can pave it.

Mr. Mackenzie: A couple of the obvious questions, given some of the past questions that have been asked on this committee, are ones of what do we do about it now. First, I guess I would ask if it is the position of the OFL that there should be a federal election before this agreement is signed.

Mr. Wilson: I can best respond to the member by saying that each night for the last few months, just before I have fallen off to sleep, I have said a little prayer that the election will be called tomorrow. There is no question in my mind that this is an issue that has to be submitted to the Canadian people for a decision, and the sooner, the better.

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Mr. Mackenzie: I guess the next question is, should the role of the government of Ontario, and of course that is part of what this committee is all about, be one of positive opposition whereby we are trying to recommend moves that would make it clear to both the federal government and, I guess, the Americans that Ontario is not prepared to go along with the deal as we currently see it?

Mr. Wilson: As I understand the provision of the provincial government, it has made its analysis and concluded that, on balance, this agreement is not good for this province. I would also assume then, as a resident of this province, the government would do everything within its power to abrogate this agreement, including whatever parts of the agreement--and I understand the Steelworkers made a presentation yesterday where they had a number of suggestions contained within those briefs. The province should move immediately, as best it can, to signal both to Washington and to Ottawa that we will not implement that agreement.

Mr. Chairman: Looking at page 7 of your presentation, "As a third point which flows from the softwood lumber episode...." I am not understanding what those figures mean: \$6 billion worth of countervail and antidumping duties as opposed to \$200 million.

Mr. Surich: The value of Canadian exports to the United States that face those duties is about \$6 billion annually. The value of American exports to Canada that face Canadian countervailing duties is about \$200 million.

Mr. Chairman: At this moment, you mean?

Mr. Surich: Yes.

Mr. Chairman: That would be the corn?

Mr. Surich: A lot of that is the corn, yes.

Mr. Chairman: I see.

Mr. Surich: They are much more frequent users of the--

Mr. Chairman: An interesting way of putting that. Mr. Haggerty?

Mr. Haggerty: I have one problem here; I need some clarification on it, anyway. I believe you have repeated it twice. I am looking at the last page, in summary. It says: "By locking us into the American path of development and by seeking to make us part of fortress North America, the free trade agreement denies the potential there might have been for Canada to develop a more effective and innovative domestic industrial base."

When you say "fortress," does this apply to the omnibus trade bill in the United States, which is protectionism at its worst? If we are tied in to that trade bill in the United States or, through the trade bill, to the US omnibus bill, that means they can almost dictate to us who can come into Canada, where we can export to and where we receive our imports from. Is that what you mean?

Mr. Wilson: Let me answer it at two levels. First, it is our belief that when the bear south of the border growled, the current federal government got panicky and decided it had to rush into an agreement. It makes no sense. If I were an American, looking at their largest trading partner, which is us, drawing the drawbridge up and shutting us out would even exacerbate their problem. I think it was more of a threat than it was a reality.

Second, the implication we are trying to design in our remarks is to say that once we become more and more integrated with the US economy and more and more restructuring of industry takes place, we will not have much left in this country with which to attempt to develop trading relationships with other countries in the world, particularly where the policy developed in this country may run counter to the policy developed in Washington; remembering, of course, that I believe that once those tariff walls come down, much of the industry, for example in this province, will not be located here any more. There is absolutely no rationale for those companies operating in the US, maintaining a duplicate facility here in Canada because of tariffs, to remain here once those deterrents have been removed.

Mr. Haggerty: That is where you feel the loss of jobs will be.

Mr. Wilson: There is no question about it. We have seen instances of that in the last year and a half in the province, as I think some industries already presume the agreement is a fait accompli and have begun to gear up for that.

I can also tell you, from years of experience across the bargaining table, that I know what the working people of Ontario will face. They will face the threat of, "If you don't match our wages and working conditions in the Sunbelt," or even beyond that perhaps, even in the free trade zone in Mexico, "then we are going to take those jobs and close those plants."

With that comes a general decline in the standard of living of workers; beyond that, less capacity for this province to act in terms of the social services required, and the whole spinoff downwards. We will wind up with an economy that will be, in large measure, low-paid service jobs and an exporting industry in resources.

Mr. Fleet: In responding to Mr. Mackenzie's second question, I think it was, you indicated that it was your view that the government--I think you

meant the provincial government--ought to abrogate this agreement. Of course, Ontario is not a signatory to the so-called free trade agreement and has no legal capacity to abrogate it. As I understand the law of Canada, although Mr. Mulroney may have a different view, the only way in which this agreement can be implemented is through government action, either by way of changing or implementing regulations or by changing or implementing legislation.

It is only when you have legislation that legal action can be taken. So if, for instance, the federal government were to implement legislation that the provincial government regarded as being an invasion into the sphere of provincial jurisdiction, there may be the possibility then to take some kind of legal action. Short of that occurrence, there is no legal power on the part of the provincial government either to abrogate the agreement or anything equivalent to that.

Do you have some information that is different or some view that is different about the constitutional power of the provincial government?

Mr. Wilson: Let me assume for a minute, Mr. Fleet, that you are the Premier, as one day you might well be.

Mr. Fleet: I am happy with the present one.

Mr. Wilson: Are you?

Mr. Fleet: But you may carry on with the hypothesis, certainly.

Mr. Wilson: If I were the Premier--or in the case of my example, you were, sitting before me--I would urge you to make clear to Washington and to Ottawa that Ontario was going to work very hard at finding whatever power we could exert and we would exert it, including some implications in service and information and the passing of legislation that would be as effective as it possibly could to block whatever roads are available now. Those loopholes are not plugged.

As I said to you, the Steelworkers made reference to some of them I think we could move upon as an Ontario government, because clearly, in this province, joined by others, but specifically in this province, the people have spoken on this issue; they are opposed to free trade.

Clearly, the Premier has an obligation to do what he can to protect people from the ravages of that agreement. In order to do that, he has to take whatever action is available to him. It is not good enough simply to say, "I do not want to get positioned so that Ontario appears to be the fat cat." The reality of that situation is that if the agreement is implemented and we are right--and I think we are--then Ontario will not be a fat cat much longer.

Mr. Fleet: I appreciate your answer. I think, in fact, the Premier has written to the Prime Minister of Canada indicating the opposition of the Legislature as well as the government. In any event, my question was of a fairly narrow focus in terms of legal authority.

Mr. Wilson: Let me give you an example.

Mr. Fleet: I am wondering whether you have information in that regard.

Mr. Wilson: Mr. Clark touched upon it in the earlier presentation. It was not but a few months ago that we argued before another committee in

this Legislature that this province should do what it can to improve closing legislation to protect workers, to put in place a disincentive against the closing of operations in this province.

If you want an example, you can move on that. It is completely within provincial jurisdiction. You could introduce that bill tomorrow. In fact, we would be more than happy to help you write it.

Mr. Fleet: I have no doubt. Thank you.

Mr. Chairman: You have indicated to Mr. Fleet now that you think the province should be protecting itself from the ravages of the agreement. You have also indicated that you pray each night that the agreement will not come about.

Supposing for a moment--and there is a certain responsibility on the province, surely, in view of the situation we are in right now, to assume for a moment that maybe this agreement will come about. Is there something we should be doing to prepare for the ravages of the agreement in the way of adjustments? On the other hand, would you be arguing that we should be putting all our efforts in the basket of making sure the occasion does not occur?

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Mr. Wilson: First of all, I do not want to appear to be parochial, but I think the primary responsibility, the way our country is structured, is for people within this province, as they have, to make a determination upon analysis as to whether the agreement seems to be one favourable to the welfare and wellbeing of this province. They concluded it was not. Therefore, there is a responsibility within the broader context of the nation for us to speak as forcefully as we can to represent our point of view, the part of the country that we come from.

I think the agreement is insanity. I think the Prime Minister actually has no historical basis upon which he had the right to do what he has done. In fact, if anything, there are two precedents in our history when the very question of reciprocity was taken to the people for decision. Prior to signing an agreement, I think the Prime Minister in his capacity owed the people of this country the opportunity to debate the agreement in a period of time after its contents became known.

Refer this question to the people of Canada for decision. If the people of Canada support Mr. Mulroney, the issue will be settled. If on the other hand they do not, there are two costs associated with that: one, getting back to try to find a way to get on with building Canada, and two, repairing the damage that is taking place in the interim with some restructuring taking place primarily in industry.

I guess my answer to you is, when I look at adjustment, clearly there is none at the federal level, notwithstanding members of parties opposite who may want to argue the question that the federal government has provided some adjustment. They quite frankly have not. They have an adjustment committee in place for a six-month period, chaired by Mr. de Grandpré, I believe, that have no funds available to it. There have been statements by two cabinet ministers that effectively said what is in place is enough.

I do not think the people looking at this question of adjustment understand the implications of it. In this province alone, it will be

incredible. It will be far beyond those transition assistance benefits that were required when the auto pact came into being in the mid-1960s where you were dealing with a clearly defined geographic location and a clearly defined industry. Now we are talking about a considerable number of industries.

Is it correct to start trying to develop a rearguard action? I would not. What I would be saying now in this province is, "We are going to do everything we can to kill the deal." If it happens, then we will address the adjustment problem. But what are you going to adjust for now? There is no question of policy. There is a vacuum there. At the moment, it is simply whether a corporation decides it wants to roll the dice now and gear up for what they believe will be an agreement that will be in place after the next federal election.

I have some concerns about the question of putting in place adjustment policies now. I do not know what they apply to. Do you?

Mr. Chairman: You have given us a number of examples here of industries that may well be in trouble, with workers who may well be out of jobs.

Mr. Wilson: I assumed what you were saying with adjustment policy was after the fact. Let me come at it a different way to make it clear. The proper adjustment policy, in my mind, is the plant closure legislation which puts in place a deterrent which in itself will correct the second.

Mr. Chairman: That depends on whether the legislation is simply an attempt to prevent a plant from ever closing or if it is some way of adjusting the closure to slow down the process so that workers can be retrained to something else. I take it your answer is that you are not--

Mr. Wilson: Wait, so I get it clear, because it is a complex question. If you said to me, "adjustment," and alluded to training, as you just have, then I would say to you, "That adjustment process should go on constantly, the training and retraining of workers."

If the widget company produces buggy whips and there is no longer a need for the production of buggy whips, we are not saying that ought to continue. What we are saying is, in the realm of public responsibility, there has to be some implication for a corporation that decides it is suddenly just going to close down its operations and walk away with it. The traditional answer has been after the fact, then there is some form of adjustment program.

In answer to your question, I would say the required initiative is up front: do what we can to kill the deal. Second, put in place what disincentives we possible can for the movement of plants and closures as a result of that.

Mr. Chairman: Just understand this, though. You are saying that secondly and I can understand that, but you are also saying the adjustment process should be ongoing. We are suddenly hearing predictions of upwards of 400,000 people who may have jobs in jeopardy in the manufacturing sector. That is not the ongoing adjustment process that we would be normally geared to. That is a real wrenching of our economy. Surely that dictates a much more aggressive adjustment process.

Mr. Wilson: I do not quarrel with that.

Mr. Chairman: Should we be putting that in place now or should we be saying to do that is a defeatist attitude, as some have said? Some have said it is defeatist to even talk about the possibility of having to live with free trade.

Mr. Wilson: There is some sense in some quarters that it might signal something. My problem is that the impact of this is so immense that when one begins to think about adjustment programs, you are right, one cannot think in terms of what we have before us now or what we have had in the past. My reaction to your question was that we do what we can up front to try to prevent that and spend a lot of energy in doing that. Clearly, the line of last resort is to provide adjustment programs for dislocated workers.

If Mulroney wins, then you are right, we are in for one heck of an adjustment program in this province. I do not see any help forthcoming from the federal government, not based on what it has said to date.

Mr. Chairman: I agree.

Mr. Wilson: Our second problem with that is that I do not believe the provincial government would have the capacity required to deal with the dimensions of the relocation, not in any single year. You might be able to put together a five- or six-year program, but I do not know what happens to people waiting in line for that five or six years for that adjustment program. It has terrible implications.

Mr. Surich: Just to add to that, obviously that 400,000 figure--which comes from the provincial government and which I have no reason to doubt--those 400,000 people are not going to lose their jobs on January 2, 1989. It takes some period of time. I think the costs will be immense, but the other thing about them is that they are entirely predictable. The sectors in which they are going to happen most quickly are entirely predictable. I think the clothing industry generally is certainly one of those. I think the food processing industry is another--branch plants of all kinds if they are small and essentially inefficient.

In that sense, the provincial government really must take a look at those sectors and those areas which are most likely to be immediately affected, or almost immediately affected; but I think it would probably be politically an error, in a sense, to announce that process now because it admits something for the federal government that I think it cannot be allowed to hear, which is somehow that we have all given up fighting what is a foolish adventure.

Mr. Chairman: Your answer is really that tactically we should not be admitting we are doing it but we should be doing it.

Mr. Wilson: Yes, we are a little bit between a rock and a hard place on this one. I tend to be on the optimistic side of the equation. I think we can beat this thing.

Mr. Chairman: The cost factor, as you say, is enormous and immense, so it is hard to do a great deal of it without the work showing through, I imagine, in budgets and estimates and so on.

Mr. Wilson: Let me ask the question another way. If we accept the figure of 400,000 workers in this province, how could we possibly cope with

that with our social benefits system as it presently is constituted, let alone any skills training for people to allow them to continue to be meaningfully employed? That is my sense of the magnitude of the question.

Mr. Chairman: Our select committee on economic affairs, in its final report, said that obviously the federal government should be funding this. The whole idea was theirs to begin with.

Mr. Wilson: In fairness, the federal government did introduce an adjustment program in April 1987. They introduced a regulation which said that workers who receive severance pay are disqualified from receiving unemployment insurance. I assume that is their interpretation of an adjustment program. I do not share that view.

That one got you, eh, Mr. McCague?

Mr. McCague: No, I thought you would have told the chairman that there are adjustments going on in the labour force all the time and that the kinds of programs one might need if the free trade agreement did become reality are the kinds of programs the Liberal government today should have to assist people like those in the shipyards and Firestone and all those programs.

Mr. Wilson: I can only go by what the federal cabinet ministers standing in the House have said. The Minister of Finance has said, "What we have in place is adequate."

Mr. McCague: But you do not believe that.

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Mr. Wilson: Of course I do not.

Mrs. McDougall made the statement that she thought there was no further need for any extension of adjustment programs. It is incredible that people would make that statement based on today's experience, when all of us know the massive job loss and relocation that will be developing, and there is no concurrent statement of financial support along with those statements.

Mr. Surich: I was on a panel on this question last night with a number of people at the Toronto city council--at which the federal representative, incidentally, failed to show--along with Peter Nygard, from Nygard International, who is probably the government's most enthusiastic supporter in the fashion industry. Quite frankly, his speech was about the loss of a very large number of jobs in that industry in Ontario, including Kitchener, without question. In fact, he came ultimately to the point where he no longer supports the agreement, or at least the part of it that applies to the fashion industry, and argued essentially that it would be nice if you could just pull that industry out of there.

Those are assessments of clear, enormous difficulties down the road which are extraordinary. They are not the same as the problems we do face on an ongoing basis with changes in the industrial structure. These are extraordinary circumstances, extraordinary adjustments being created deliberately by a piece of federal policy. Therefore, they call for a qualitatively different kind of response.

Mr. Chairman: Thank you very much. I wish we could go on, but we do have another group of witnesses waiting. We appreciate your input and clarification of your views. We are obviously going to be taking those into serious consideration.

Mr. Wilson: Thank you, Mr. Chairman, and we thank the members of the committee for their patience in listening to us. Someday you may be Premier.

Mr. Fleet: Thanks for the thought, anyway.

Interjections.

Mr. Chairman: The next presentation is from the Council of Canadians, an organization I think we all know about. The presentation is going to be made by Mr. Trent, the chairperson, assisted by Bruce Willson, honorary director, and Sandra Drake from the board of directors, as well as Grace Hartman from the board of directors. I understand present also is Ted Krasowski from the Toronto chapter.

Just now we have your presentation in front of us and probably have not had a chance to look at it very carefully. Perhaps you could lead us through it.

COUNCIL OF CANADIANS

Mr. Trent: Thank you for allowing us to be here today. As you have said, my colleagues with me today are, on my right, Sandra Drake, accountant and co-ordinator of the Toronto chapter of the Council of Canadians; Grace Hartman, former president of the Canadian Union of Public Employees; and Bruce Willson, former president of Union Gas. I am currently with the University of Ottawa.

We are here representing not only the Council of Canadians in Ontario but also bringing you the greetings of the council from across Canada. We have grown from 70 to 7,500 members in two years, obviously because of the nature of the policies that are before us from the present government in Ottawa and especially the trade agreement.

I am going to make an oral presentation and then, because we thought one of the very important aspects of this deal is the question of energy security and the continental energy policy that will follow from the deal, I asked Bruce Willson to be with us today and to speak to you on that subject particularly.

I would like to congratulate Ontario and this committee for trying to delve into the basic nature of the trade agreement. It is extraordinarily important, as we have seen something like only 20 to 25 per cent of Canadians feel that they are informed about the agreement. It is very important that these hearings go on and that more information be brought out.

I intend to just summarize. I think you all know the position of the Council of Canadians with regard to the trade agreement, so I do not want to use all my time talking about that position. I intend to summarize it very quickly, giving some 20 of the key reasons we oppose it.

I think you have heard enough talk during the past month. We have probably talked the issue to death in many ways, the technical aspects of it

for and against. It is much rather as a character witness both for Canada and the trade deal rather than as an expert witness on the details of the deal that I would like to speak to you today.

In a sense, we feel that all Canadians are falling into a trap by thinking only in the narrow terms of this particular deal, which is therefore to follow the federal government's agenda and the big business agenda. We also think it is much too narrow a way of looking because everyone is asking: "What is it going to do to my industry? What is it going to do to my region? What is it going to do to my union?" and so on, instead of thinking about what it is going to do for Canada. We think this committee should be asking that question as well as the narrower question.

In a sense, what people are asking us to do by debating the essence of the free trade deal is sort of like asking a group of geographers to do away with the flat earth concept before they get around to talking about the real issue. As far as we are concerned, the real issue in Canada is the development of our sovereignty and identity, and the development of a consensus about how to approach the economic future, about enhancing our world trade position--because we would claim that the position of the United States has been very good indeed--and, finally, about developing industrial development tools.

I intend first to make some comments, a summary, on why we are opposed to the deal and then simply try to answer the questions, if we think it is so bad, who thinks it is good? Who is in favour of it? Why are they in favour of it? We think it is time the veil was pulled off this issue. I think it is very important.

My comments are under five headings: first, the impact on sovereignty; second, the economics of the deal; the third has to do with the process of its negotiation; then I will look very quickly at cultural and social policies and at consumers and business corporations and the presumed benefits. I am really just going to give you very quick headings because, as I say, you have heard this so many times now and I do not want to bore you to death.

Very summarily then, what are our criticisms of the Mulroney-Reagan trade deal? First, under sovereignty, we believe this will lead to greater integration and harmonization with American policies and eventual economic union with the United States.

I always like to quote people. Robert Bourassa said in 1985 in an interview in the New York Times: "There is an internal dynamism in the integration process. If we start one degree of economic integration, it will be difficult to stop the others. Free trade will lead to customs union and customs union will lead to common political institutions." Of course, we all find it rather surprising Mr. Bourassa is now supporting the deal.

We think that this process of integration and harmonization will reinforce north-south attractions and erode the east-west willpower which has always been necessary to maintain Canada and that this essentially is the greatest problem for Canadian sovereignty. The Prime Minister has told us there will be no attacks on Canadian sovereignty. We think the very glue of the country will become unstuck because of the north-south trends.

Because of the deal, we will also not be able to make made-in-Canada industrial and economic development policies; our control over investments in energy supplies will be greatly diminished, if not completely eroded, and in our trade with third countries, we are going to have to be considering all the time how that will affect the deal and how the Americans will react.

The scope of government will be seriously affected. In fact, we think that provincial sovereignty and the Canadian federal system, as we know it, will be endangered by that portion of the deal which, as you heard so many times, says that the parties to this agreement, that is, the two central governments, will ensure that all necessary measures are taken in order to give effect to its provisions, that is, by state, provincial and local governments. We do not think the Canadian Constitution allows such a policy. We are surprised to find it in the deal.

We are also surprised to find a continental energy pact in the deal and the erosion of foreign investment controls and protection of our banking and financial institutions. In all these areas we think there is great harm that will come to Canada's sovereignty and our capacity to govern and develop the country economically and politically.

The second area has to do with economics itself and the impact on the economy, and here I refer first to the fact that we have seen through past history, whether it has to do with the Maritime provinces in Canada; the British empire; or with the northern states, the rust tier, as they are now known, in the United States, wherever in the world, an attempt to enforce free trade has favoured the powerful, centralization, concentration of wealth and the production of wealth, and it is not a policy that has been favoured by countries that are trying to move up in the international economic sphere.

Second with regard to economics, we believe that those who are proposing that the deal go ahead are looking only to preserve their access to the United States market and not what they often claim, developing dynamism and innovation as a goal for Canadian industry. In other words, what we are looking toward is continental protectionism, a Fortress North America, rather than getting out and competing in the world markets.

As I am sure the committee knows, the statistics on the decline in the Canadian portion of the world market is quite extraordinary. Just talking, for instance, about the Pacific Rim countries and our trade with Pacific Rim countries, our overall balance, which was in a deficit of \$734 million in 1984, when this government came in, has gone in 1986 to a deficit of \$4.6 billion. We think this type of agreement will not help us in our move towards competing in the world.

The third point under economics is that the whole deal is being analysed in isolation from exchange rates, interest rates, credit and capital flows, all of which could have more impact on the economic and trade future of Canada than the free trade that is being proposed, and we think we should be paying much more attention to these issues.

Fourth, we find that Canada, again, as has been said so many times, has failed to achieve its major economic objectives of a guaranteed access to the United States market and a dispute settlement mechanism. Under the free trade deal, successful Canadian companies are still likely to be countervailed in the United States. They are also likely to be subject to the new omnibus, or as Vice-President Bush calls it, "the ominous US trade law," where the

president is given authority to pretty much act as he wishes against third countries in trade matters under the pressures from United States industry.

We also believe there will be disinvestment in Canada and that little new international investment will come to Canada as branch plants rationalize their operations and new investments go to the centre of the North American market in the United States. Canada has given concessions without commensurate gains. We are talking about a piddling 125,000 jobs, according to the Finance minister, Mr. Wilson, over a 10-year period; that would be about two per cent of our unemployment at the present time. Or we are not quite sure whether that is the correct figure, because Mr. Bouchard, the Minister of Employment and Immigration, has projected a decline of 500,000 jobs.

In any case, we believe that these projections could be corrected by looking at the actual facts over the last 10 years. The actual facts over the past 10 years, according to the studies we have developed from Statistics Canada, show that it is small and medium-sized Canadian companies between 1978 and 1985 which created 872,000 jobs, while among the large corporations, the foreign-owned corporations, the US-owned ones lost 8,900 jobs and the other foreign-owned ones, 14,000.

In other words, if, as we project under the free trade deal, there will be an increasing tendency for American and other foreign corporations to buy out Canadian companies, banks, financial institutions and service industry companies, we can expect that there will be even greater disinvestment and losses of jobs in Canada. Yet with all of this we have handed over to the United States everything that the United States has ever requested: a continental energy pact, investment conditions in Canada that have absolutely no controls, and the banking and service industries as well.

With regard to the process under which the agreement was negotiated, we are opposed to it not only because the Mulroney government has no mandate but because he, Mr. Clark, Mr. Crombie and the Ontario Conservative Party all stated publicly and repeatedly that Canada has no benefits in free trade. So we believe also that this project is now dividing the country, that it is an interim agreement in which we will be negotiating subsidies over the next few years at a time when we have lost all our bargaining chips.

In conclusion, I should say under the issue of sovereignty--because I do not wish people to think, of course, that it is just strange organizations like the Council of Canadians that are worried about sovereignty--I would like to quote from the conclusion of the analysis by Peter Martin, economist and vice-president and director of McLeod Young Weir, in his October 19 analysis of the Canada-US free trade agreement. He says: "While on balance there are net economic benefits, however, the price of increased prosperity is increased US and other foreign ownership and controls of the Canadian economy and significantly reduced political independence and sovereignty in energy, investment and financial services, and there is somewhat reduced sovereignty in culture, industrial policies, subsidies and possibly social programs."

Finally, the last question I want to bring up is this: If we say the deal is so bad for Canada, what is it, who is it, that we expect is going to gain from it? I think there are two answers to this. The first one is, of course, the United States, but not for the usual reasons that people talk about. We are not talking about simply the issues of particular industrial or economic gains. Obviously, what the United States has in mind is something that goes well beyond Canada, and it is the following.

The United States has found that it is out of step with almost every other successful industrialized country in the world in the last 10 or 15 years, both in the question of growth and achievement and also in the way it handles its internal economy and its international economy. That is to say that they have found that other countries do not share their perception and their way of handling the market economy and government participation and collaboration with the labour market.

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So what they have simply done--and they started with Canada and Israel; Israel, of course, has already stated that it thinks we are a bunch of suckers for what we have given away in the deal--is they are intending to use the attraction of the American market, the access to the American market, as a bargaining counter in order to force, one at a time, each one of their other trading partners to move into specialized bilateral agreements with them if they wish to maintain their access to the United States market and thereby force other countries to use American definitions of how to do business, how to do subsidies and how to handle their markets and societies. That is the biggest winner.

The second is the group that has been promoting this in Canada. I notice in the paper that it came down and called into question the credibility of the province of Ontario the other day, saying that your studies were misleading. I am talking about the Business Council on National Issues. This is an organization which, as most of us know, represents big business, a lot of it foreign, major corporations in Canada. It is a corporation that has created the federal government's agenda on this issue.

This agenda has not been produced by the Conservative government of Canada. It was created, new research has shown, starting in 1982 by the Business Council on National Issues, which not only created committees and took decisions but produced the draft books that eventually became the Kelleher statement on trade. They carried out negotiations with the American ambassador, the American government and American corporations. It is clear that these people feel they are negotiating access for their corporations to the United States and they are very little interested in the impact this will have on Canada.

With those comments, I think I will ask Mr. Willson to follow on with some comments on the question of energy in particular.

Mr. Willson: Energy is really a sleeper in this free trade agreement, I think, in that it has not had the attention it warrants, given the serious dependence Canada has on nonrenewable forms of energy, about two thirds of our total energy needs on a national basis. I think generally in Ontario the percentages would be about the same.

About two thirds of our total energy needs come from petroleum and natural gas. About 42 per cent comes from petroleum and about 25 per cent from natural gas. The balance of our energy comes to about eight per cent from coal, about 20 per cent from hydro and nuclear and a small percentage from renewable forms of energy.

Basically, we have a very highly dependent economy on oil and gas. These supplies come from storehouses of nature in the earth's crust that were developed over millions of years, but they are being used up in the twinkling of an eye in geological time.

The paper you have in front of you is one that I prepared in connection with a federal government energy forum in Montreal in December. I thought the graphs would be of interest to members of the committee because they show the way in which Canada's conventional oil reserves and gas reserves have changed.

When oil was discovered at Leduc in 1947, reserves grew. Across the bottom, this is 1950 and going out to the year 2000. Reserves increased quite rapidly in the 1950s and 1960s. They peaked in 1969, and it has been all downhill ever since. These data, incidentally, are primarily from the most recent National Energy Board study on energy supply and demand for Canada for the years 1985 to 2005. Crude oil reserves peaked in 1969, have dropped rapidly and are projected by the board to fall to either the middle line or the bottom line. The top line is if oil prices are considerably higher than they are today, US\$27 a barrel. The lower curve is the expected decline in oil reserves if oil prices stay about the same as they are now, around \$17 or \$18 a barrel. Either way, we are in a very serious decline for the energy form that meets 40-odd per cent of our needs.

The other curve here shows the situation with respect to the growth in natural gas. The reserves development lagged behind oil by 10 or 12 years, peaked in 1981 or 1982, has declined in each year since 1982 and is predicted by the National Energy Board to come down along this line. So we have a very serious dependency on declining supplies of nonrenewable resources.

The second graph is the one of crude oil for the period 1985 to 2005, again from the National Energy Board study. Demand for crude oil in Canada is expected to stay pretty level through this 20-year period, rising slightly with population and an assumed economic growth, but the total supply is forecast to drop along this line, and by the year 2005, it would only be about a third of the total demand.

If you look at where the oil goes now, the top part is Atlantic Canada, and that is all dependent on imports at the present. The second segment, going down the right side of the graph, is that of Quebec and it is mostly dependent on imports at the present. Ontario at the present gets most, if not almost all, of its oil from western Canada. The supply from western Canada is forecast to drop along this line and, as I say, Ontario will be dependent on foreign oil imports. The next market segment shown here is for western Canada, the Yukon and the Northwest Territories. Basically, we are in a very serious energy supply decline.

The high-price case--and I do not think this graph is in your study--assumes that Hibernia and the frontier will come into the picture. You will notice the same characteristic decline, but not quite as much when Hibernia and frontier oil is factored in. Again, Ontario becomes to a great extent dependent on foreign imports.

In the case of natural gas, the National Energy Board predicts it will decline. The producibility of Canada's existing reserves, plus assumed new discoveries, plus enhanced recovery techniques, is expected to decline along this line. Present Canadian gas demand is along this bottom line, and this is the amount we are currently exporting to the United States. We export about a trillion cubic feet a year or 2.3 billion cubic feet every day.

The trade agreement calls for the US to maintain access to Canada's oil and gas production in proportion to the recent experience. I think the words are something like, "the three-year experience for oil exports to the United States will be the basis for projecting future requirements." At the present,

the oil industry is exporting about 42 per cent of our production to the US. Something like 775,000 barrels a day go whistling down the interprovincial pipeline system into the US Midwest and the US Northwest markets and, as I said, about 40 per cent of our gas production goes to the US.

The trade agreement calls for the US to maintain those percentages. If and when the shortages hit, and it is obviously just a matter of time, the US is to be given proportional access to whatever reserves Canada has remaining. So we have the situation where 40 per cent of our diminishing supplies go to the US.

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Incidentally, that 40 per cent of our oil production meets something like seven or eight per cent of the US oil imports at the present time. Surprisingly, Canada is the largest foreign oil supplier to the US, even larger than Saudi Arabia, even larger than Venezuela--slightly larger than those countries. But our ability to supply is declining as reserves decline, and I just noticed the other day that nominations for Canadian oil in western Canada exceed the ability of the industry to produce.

So we have a very serious situation with respect to energy supply in Canada and particularly in Ontario, which is dependent on imports from either western Canada or foreign sources for essentially 100 per cent of its oil and gas requirements.

That was what I wanted to highlight: the precarious nature of our energy supply situation and the way the US has got its nose under the tent in a very secure way.

Mr. Trent: Mr. Chairman, we put ourselves in your hands.

Mr. Chairman: Thank you for some very interesting matters that you have raised. I have marked down a number of points that perhaps I can just review with you.

You should add Andy Brandt's name to the list of people who have indicated an interest in talking about a common market situation.

Carl Beigie, the economist with Dominion Securities--

Mr. Willson: They just fired him.

Mr. Chairman: --has indicated to a group of American lawyers which I was privy to last week that that 120,000 figure the federal Finance department has come out with is subject to statistical error. It is within the realm of statistical error. It could be 120,000, more or less.

A question about energy. One of the things that I learned in the United States last week was that the American oil and gas producers are unhappy with that provision because of the fear of competition. The way those charts are showing, they should not have that fear.

Mr. Willson: I think you are talking about the gas producers, rather than the oil producers. The US situation with respect to natural gas is, I think, a temporary one and an anomalous one. US gas requirements now are about 16 trillion cubic feet a year, but the US has a current producibility of about 18 trillion feet a year, so there is a slight surplus of producibility over market requirements.

To the extent that Canadian gas comes in in the short run and supplies part of that 16-trillion-cubic-foot market, it detracts from the total market available to US producers. So they are opposed in the short run to even the current access, but more particularly increased access of Canadian gas. They are in the business of trying to make as much money as they can out of their established reserves and they want to sell it as quickly as they can at the highest price they can.

They do not have the medium- and longer-term perspective on the supply-demand situation that I think governments have to look at. They do have a short-run financial interest in trying to minimize Canadian exports, US imports of Canadian gas, but I think it is a very transitory situation because US gas reserves are coming down just like Canadian reserves are. There is going to be a continental shortage, and that is why we have this concept of the energy policy.

Mr. Chairman: You used a percentage and I was not quite sure, was it seven or eight per cent of American oil comes from Canada?

Mr. Willson: Of US oil imports. US total oil demand is something like 16.3 million barrels a day, which is about six billion barrels a year.

Incidentally, just to put a little perspective on that, Canada's remaining reserves are something less than 4.5 billion barrels of conventional oil. So Canada's remaining reserves are the equivalent of about a nine-month supply for the prodigious US demand for crude oil. Our reserves are small in the context of the continental demand and, as I say, the US can drain us very rapidly because of its huge market.

Of that roughly 16 million barrels a day of US oil demand, US domestic production, including Alaska, is about eight million barrels a day. Almost exactly 50 per cent of US demand is met by domestic production. The other 50 per cent comes from foreign imports; 775,000 barrels of that from Canada.

Mr. Trent: Am I right in saying that, aside from the question of supply, the Consumers' Association of Canada and other analysts have clearly shown that the trade deal will considerably increase the costs of oil and gas?

Mr. Willson: The price? Yes.

Mr. Trent: The price. I think also the Americans, over the years, have learned how to play our western producers and Canadian public opinion very well with this idea that they might limit the amount that we can get into their market which, of course, immediately raises a hue and cry in Canada that we must give up all sorts of things to make sure that we have access when, in fact, it is something that should not bother us at all. The Americans will call for our supplies as soon as they need them.

Mr. Chairman: Yes. Do you have buttons for members of the committee? Mr. McCague was asking.

Mr. Trent: Do we have extra copies of the buttons?

Mr. Chairman: Are there any other questions?

Ms. Drake: I will donate mine.

Mr. Chairman: Thank you very much for your assistance. We certainly appreciate it.

Ms. Drake: Could I just make one little comment?

Mr. Chairman: Certainly.

Ms. Drake: I am associated with the Toronto chapter. Therefore, I am at the grass-roots level and I have grass-roots strategic concerns that I would like to express. For instance, Mr. Fleet, I am a constituent of yours and I am wondering when you intend to call a constituency meeting on free trade. There is no doubt in our minds that pro-free traders have lots of power, lots of bucks, lots of promoters.

We look to our allies, and we consider the Ontario government to be one of them, to step forward and be counted with us because we would like to have it on the record that there are a lot of us who voted, provincially, in the only province in Canada to have an election on the issue on free trade. We made our opinion known, we elected a strong anti-free-trade government and we would like to see it front and centre with us on this issue.

Mr. Mackenzie: May I suggest also that you think about the report of this committee when it files it back in the House, to see how much it has toughened up.

Ms. Drake: I would appreciate that.

Mr. Chairman: Mr. Fleet would like to respond.

Mr. Fleet: First of all, I agree that people voted, in at least a significant measure, because of concern about free trade, and I certainly supported the position of the Ontario government during the election. I have done more than simply buy a button. I joined the Council of Canadians not too long after it was formed. I cannot remember the exact date that I joined.

Ms. Drake: That is how you got my vote.

Mr. Fleet: That is good to hear.

There has already been a public meeting. It was actually the federal riding association that held it. It was about a week or 10 days ago, but I did attend that. I have had some plans afoot for a while now to deal with the issue of free trade in one of the households that I anticipate coming out either this month or next. I am still learning my way around how to get those out. But I do believe that it is, in fact, an important issue. You will see considerable amount of space in the householder devoted to that issue.

I would concur with one of the comments that was made at the beginning of your statements that people are still not comfortable with the level of knowledge they have about the agreement and that is one of the things that I think is important about these hearings. It provides further information. It is one of the reasons I am grateful that all of you came. I know you have all spent quite a bit of time and effort to help inform other Canadians, and I want to congratulate you on the efforts you have made so far and wish you well. Let me know if I can help you in the efforts you are going to continue with.

Ms. Drake: Thank you.

Mr. Haggerty: I was interested in the comments of the witness. He talked about the special-interest groups back in 1984 that really engineered

the free trade deal for the Conservative government. I went back and picked up Maclean's magazine on "Free Trade: The Climax to a Historic Debate," and this is dated September 16, 1985. I should read it into the record. It will give you some support on this.

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"On a cold, cloudy morning late last January, 40 senior executives of some of Canada's largest corporations filed into a conference room in a suburban Toronto office building for a highly unusual and confidential meeting. Among the influential participants: the chief executives of such diverse and powerful enterprises as Bell Canada of Montreal, Stelco Inc. of Toronto and BC Resources Investment Corp. of Vancouver. Their purpose: to form a blue-chip task force to pressure the new Conservative government of Prime Minister Brian Mulroney into negotiations aimed at liberalizing Canada-US trade."

They said, following that, "Canada's business elite has helped to push the historic debate about free trade to the top of the country's economic agenda."

Mr. Chairman: That is very interesting, especially that timing in January 1985, is it not?.

Mr. Trent: Could I just add to that? In fact, this is when Maclean's got wind of it. They are not often noted, I guess, for their in-depth analysis and behind-the-scenes digging. The committee was set up in 1982. That is when they really got their clout going, when they started meeting with Paul Robinson, the American ambassador.

This is a quote from Hyman Solomon in the Financial Post of June 30, 1984. He says: ?? "Finally, by the spring of 1984, the business council agreed on a program designed to push Canada-United States relations to the top of the next government's political agenda.

"During the next several months, while Canada's election campaign is being decided, the council will quietly spread its message to provincial governments and the wider ranks of the private sector. When it finally rings the door of the new Prime Minister, what it hopes to have in tow is the backing of a constituency which no government can safely ignore."

Mr. Chairman: Thank you very much. You do not know how timely your presentation is, because the committee is now going on to discuss some independent studies it is looking at. One is a proposal to look at the whole issue from a historical, political and economic perspective. Thank you.

Gentlemen of the committee, you have in front of you a proposal that was prepared by Mr. McLellan. I know we have been working awfully long and it is getting late, but you have in front of you a proposal that Mr. McLellan has spent some time on as a result of two sets of ideas that seem to have permeated to him over the last three weeks. You will recall, initially--perhaps even prior to the last two weeks when the deal was first announced and signed--over the Christmas period there was a lot of debate about the constitutional ramifications, especially, I suppose, with Mr. Scott's speech on December 15.

That caused the first concept to take place. The second one, I think, was germinated in large part by Mr. Neumann's suggestion that he would like to

see the whole north-south issue looked at from a very wide perspective, not only economic but also historical and political. I think Mr. Neumann is a history teacher by trade. But it is a fascinating concept and it is not one that has been done that I am aware of.

When I first looked at this this morning, my own result was that there is a lot of economic work--we have heard comments--that needs to be done. Some of it may be being done by various government ministries, including the Ministry of Industry, Trade and Technology did offer co-operation and support with it. Whatever we do probably should be done in some consultation with them just so that there will not be an overlap.

I think Mr. McLellan has set that out in study too as well because he has talked about a very wide-ranging study. I think he is also suggesting that we get perhaps more than one consultant to collaborate on something like that.

Mr. Ballinger: I think the biggest disappointment under study 1, under the University of Toronto, possible consultants, is you left off John Crispo's name down there.

Mr. Mackenzie: Are you open for comments?

I think that the emphasis has to be on the two areas of interest. One is obviously what we are dealing with right now and whether there are areas that where Ontario can effect this. We are looking at the actual implementation. We are now faced with reality in terms of the free trade deal.

The second one I have no difficulty with. I might even enjoy it myself, but it is a little more esoteric. It is a little more historical. It is not immediate and I think it is a much longer term proposition you are looking at. I would hope that this committee, given the time limitations we have, is not too deeply involved in any major effort. I want to make it clear at the beginning. I have no disagreement with what Mr. Neumann has raised as what I would call a long-term project, but I sure as hell do not think it is the emphasis that we are in right now in terms of this free trade arrangement.

Mr. Kozyra: I have a concern and perhaps it is covered here, but in more general ways. I think the whole issue of impact and the adjustments is the thing that we, but to a much larger extent perhaps the general public out there, is going to be concerned about or is going to feel. I would really prefer to see something, a clear document, on that. We have had it in bits and pieces from the various witnesses. I realize there are pros and cons, but the whole issue, I am not sure we have anything really clear and comprehensive on impact.

Once the impact is there, what kind of adjustments could be foreseen? This has been touched on by the labour people earlier today to some extent. I think a lot more could be done that way.

Mr. Chairman: I did not catch everything you were saying. You are talking about economic, jobs, is that it?

Mr. Kozyra: I think so. I think that is the primary aspect of concern. That may be touched on. It says legal, political and implications. But I am not sure how far that is going to go.

Mr. Chairman: It seems to be included in the text there, but that was a concern I initially had until I read the fine print and then it seems to be in there.

Mr. McLellan: I wanted to say to Mr. Mackenzie that, unfortunately, Mr. Fisher's name is mentioned on the top of page 3. It spilled over. Originally it had been intended to be on the bottom of page 2, but he is mentioned there, right up at the top. It is mentioned there.

Mr. Mackenzie: The other point that I wanted to make as well, and I have discussed this with you, Ray, it is that when you are listing points, one of them that I would like to see specifically referred to, as part of the study we are doing, is an analysis of those areas that might be involved in disputes over what are subsidies. I think that is something we should be taking a look at as well when we are doing this.

Mr. McLellan: I think that on the subsidies question we will probably look at what the General Agreement on Tariffs and Trade means by subsidy and how the US and Canadian trade law looks at it.

Mr. Haggerty: They have not defined, I do not think.

Mr. Chairman: But there have been examples.

Mr. Haggerty: They are looking at it now, though, more closely than ever before and I think there will be a report or something coming down very shortly in that area of subsidy.

Mr. Mackenzie: Obviously, it is the key very much to how we end up, although after the fact, unfortunately once again, if this agreement is signed. But we are talking about five to seven years, and what they define as subsidies could or could not have a very substantial effect on social programs or economic development or you name it in this country. I think part of the discussion or the terms of reference has got to be what are going to be arguable subsidies and where they will make a case and where they cannot, as much as we can predict it.

Mr. Chairman: That could be an incredible project on its own.

1700

Mr. McLellan: In the GATT document we all have, article XVI deals with subsidies. As I say, that would be a starting point, for the person doing that study to clarify exactly how GATT deals with subsidies and historically how it has dealt with them and then to look at Canadian and US trade law. That is an interesting question, I agree.

Mr. McCague: What is your intention with this presentation of Mr. McLellan?

Mr. Chairman: I think it does a couple of things.

Mr. McCague: But are you going to deal with it today?

Mr. Chairman: I am putting it out for discussion. We could deal with it if I thought there was a huge consensus. Otherwise, it could be dealt with in a subcommittee meeting next week in more detail. I was really thinking the latter was more likely.

Mr. McCague: I do not know about the others, but what about getting the committee together half an hour or an hour early on Monday, February 15? I think it is something that should be dealt with by the whole committee. In all

fairness, I think it is something that should have been tabled early in the day or we should have had notice that it was going to be dealt with earlier in the day. To do it right now is a little quick.

Mr. Chairman: I think your point is perhaps well taken.

Mr. Mackenzie: I would try to put it, as suggested, on the table at the beginning of our next session because if we are going to commission anybody to do any of this work for us, we cannot leave it a hell of a lot longer. That is my concern.

Mr. Chairman: Does it interfere? Will we then start at one o'clock and give it an hour on Monday, February 15? All right. Let us do that. Everyone has a copy of it. If you have any revisions, I have some notes here about some other ideas too. Maybe we can develop those a little bit and discuss it more thoroughly at that time.

The other thing the committee should be aware of is that at the moment we have not asked for any budget for this and obviously these things cost some money. What I would suggest is that when we make up our minds what it is we want to do, we enter negotiations with the people concerned and then prepare a budget.

Clerk of the Committee: If I can clarify a point, Mr. Chairman, I think it is important you realize that once the supplementary budget goes to the Board of Internal Economy, it will have an indirect decision on what you do because it has to approve the funds, of course.

Mr. Chairman: Yes.

Clerk of the Committee: But once that is done, there is no difficulty with it.

Mr. Chairman: Is there any timing question if we wait until the middle of February?

Clerk of the Committee: As soon as you can do it.

Mr. Chairman: Yes, but they do not meet that often.

Clerk of the Committee: I am quite sure they can meet, what they call the run around. They go from each member, with the approval.

Mr. Chairman: All right.

Mr. McLellan: Could I just ask two questions? First of all, on the question of consultants' studies, is there anything else that you want done before February 15 or are you going to come back on February 15 with ideas?

Mr. Mackenzie: I trust you have some idea or some recommendations. I do not claim to know these people as to who would be the best persons, hopefully as objective--it is difficult for me to say this sometimes--as possible. There are people on both sides I would not particularly like to see doing it.

Mr. McLellan: One of the points I was trying to make on that was that for each study we would have a balanced perspective politically if that is possible.

The other question I have very quickly is--Rick Ferraro is concerned about this; I have to get started on this fairly early--when we went down to Washington last year, we had this massive document compiled here which dealt with a number of issues. Some people found it helpful and others felt it was too long. Perhaps there are specific things you want in that; in other words, we could add a lot of trade figures that would be very helpful, so that when we are speaking with various representatives in the United States, we can quote deficit and surplus figures specifically. If you want specific documents in there, perhaps you could let me know exactly what it is in addition to what I would normally put in. I do not want something that is a foot thick, but I think we want very concise statements that are useful.

Mr. Mackenzie: You want something where when we know what we want, we can pass it on to you so you can put it in.

Mr. McLellan: It is so that if you have specific requests, we can guarantee that it is in there and it is--

Interjection.

Mr. Haggerty: May I suggest at this time, though, if you have enough research staffers, to go back in--

Interjections.

Mr. McCague: If we are going to get people to do studies for us, would it not be true that the more comprehensive that book is, the more helpful it will be for that purpose, if not our own personal purposes?

Mr. Chairman: Yes. I think Mr. McLellan is just saying that if there is something you think of, let him know.

Mr. McLellan: If you want to know something very specific about agriculture, let us say, subsidies in the US for erosion programs in agricultural policies and how much they spent and where it was spent, then if you speak with an agriculture person, you can ask: "Here's the program; you spent so many million dollars in 1987. How do you account for whatever you have done in the last couple of months?" That type of thing.

I think last time we had broad articles and there is a tendency for us to get bogged down in them. Then you find that when you walk in to talk with somebody like Senator Heinz from Pennsylvania, he is very specific about subsidies or the number of people unemployed in steel or the coal industry and you have to be precise to counter his arguments. We should have that well-thought-out and documented stuff. You should know whom you are seeing and what documents and specific figures you want before you talk to them. Then I think you will be able to make a stronger case.

Mr. Chairman: The agenda for Washington involves, I guess, a meeting when we arrive Sunday night to orient ourselves for Monday, dealing mainly with interest groups, the unions and the Department of Commerce--nonpoliticians, because they tend to be just arriving. Then on Tuesday and Wednesday we will be dealing with politicians.

I have two other things. One, do you want a subcommittee meeting next week to deal with this proposed agenda, or will we just go ahead and endorse that these people have all been tentatively invited for the time? Any problems with that?

Mr. Mackenzie: I think you can proceed.

Mr. Chairman: Second, there is Mr. Birch's contribution to the library. Is this to the library, to Mr. Haggerty's library? I am not sure what has been given to the committee.

Mr. Haggerty: What was that?

Mr. Chairman: Mr. Birch, who has been a constant attender here, has donated to the committee some of his product.

Mr. Haggerty: Homemade, is it? You know what the rules are. No drinking in committee rooms.

Mr. Chairman: I do not know what it is. Do you wish this to be stored with the chairman? Thank you. We will adjourn the meeting until February 15 at 1 p.m.

The committee adjourned at 5:09 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS
PREBUDGET CONSULTATION AND TAX REFORM
MONDAY, FEBRUARY 15, 1988



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Harris, Michael D. (Nipissing PC) for Mr. McCague

Poole, Dianne (Eglinton L) for Mr. Pelissero

Clerk: Carrozza, Franco

Staff:

Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Treasury and Economics:

Nixon, Hon. Robert F., Deputy Premier, Treasurer of Ontario and Minister of Economics and Minister of Financial Institutions (Brant-Haldimand L)

Purchase, Dr. Bryne B., Assistant Deputy Minister and Chief Economist, Office of Economic Policy

Gourley, Michael L., Assistant Deputy Minister, Office of the Budget and Intergovernmental Finance

Silk, Qaid, Assistant Director, Macroeconomic Policy Group

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Monday, February 15, 1988

The committee met at 1:04 p.m. in room 151.

Mr. Chairman: Perhaps we can get started. As we are waiting for some of the members of the committee to arrive, I can perhaps say a few things to the people who are watching us on television today.

This is the standing committee on finance and economic affairs. You will be watching us today. Tomorrow you will be watching the select committee on constitutional reform, which will be dealing with Meech Lake. On Wednesday and Thursday you will be watching the standing committee on public accounts, which basically looks into areas of administration and delves into those things.

Our committee is a unique committee which has existed now for about two years. It has a general overview responsibility with regard to economic matters. In particular, at this time of year, we are charged with trying to assist the Treasurer (Mr. R. F. Nixon) in determining the direction the budget should take. There is an approach that is being taken now at both the federal and provincial levels that budgets should occur on a fairly regular annual basis--the federal budget in February, and it occurred just last week, and the provincial budget in April or May.

Prior to that, the Ministry of Treasury and Economics prepares a document called Economic Outlook and Fiscal Review. That document came out in December 1987. It is a very concise document that has a great deal of basic information in it that is of assistance to legislators and anyone else with regard to what the province should be considering, some of the problems we have to deal with and some of the possibilities and changes in policy that we might want to look at.

That document has been available to members of the committee and it is available to them today. They will also have an overview of that document, which is in front of committee, which was prepared by Anne Anderson of our research department. We have with us today the Treasurer of Ontario, the Honourable Robert Nixon, who is going to make some comments to us about the economy as he sees it. We will be asking him questions and we will be asking members of his staff questions concerning the preparation of the fiscal and economic situation in Ontario at the present time.

At the moment, we are waiting for some of the members of the Legislature to arrive. Perhaps in the circumstances I can see a quorum. We should get started because we do have a busy afternoon.

Mr. Mackenzie: Is there any significance to the fact that there are no Liberal members here, Mr. Chairman?

Hon. R. F. Nixon: I am a Liberal and so is the chairman.

Mr. Mackenzie: I recall some remarks about arrivals from the chairman previously.

Mr. Chairman: I am in a very nonpartisan capacity, Mr. Mackenzie. I am not going to make any comments, although I note that at one o'clock only the Treasurer and myself were here. Now there is a full contingent of New Democrats and there is a Conservative here. I understand there was some confusion as to the subject matter and that may be the reason the other Conservative is not here. I understand from the Liberal caucus that the Liberals will be here shortly. Mr. Nixon, perhaps you could get started.

PREBUDGET CONSULTATION AND TAX REFORM

Hon. Mr. Nixon: As usual, I am very glad to have an opportunity to meet with this committee formally. I think you are aware that there have been at least some informal gatherings, including a time when the committee was asked over to the boardroom of Treasury. I hope to do that again, perhaps at least once more before the budget, at which we can have some more informal discussion as to the course of our fiscal policy, but I am aware of the extremely busy timetable set by the committee, both for today and for the next few weeks.

You are asked to review the free trade ramifications and you have been doing that really since the policy of free trade was first announced by the government of Canada. Now that the agreement has been signed and there is some thought that both Congress and the Parliament of Canada will be producing some enactment legislation in the next few months, it is particularly important that this committee, in its position to do research and then to advise the members of the Legislature, do that work so that we can make plans for any dislocations that might arise in the province as we move into a free trade position.

I am also aware that you have undertaken at my behest to do some prebudget consultations and that groups from the community--I think, for example, I met with the hospital association just a few days ago--are planning to come before the committee to express their views in public as to how financing might be changed and improved to meet these community needs.

I just want to say, before we talk about the economic outlook in general, that with the reading of the federal budget to Parliament last week by Minister of Finance Wilson, it puts us in a stance now in Ontario where our budget preparations are more serious. We hope to be ready soon after the House resumes after April 5 to read a budget to the members of the Legislature setting out a review of the economy as it presently is and making our fiscal and spending plans known for the coming fiscal year 1988-89.

In that connection, I think it is valuable for us to realize that since 1981 the programs of mutual funding between the government of Canada and the government of Ontario have been quite dramatically changed. Beginning in the last 18 months of the Liberal government and continuing in the years since the Progressive Conservative government took office in Ottawa, the formula for transferring funds to the province in support of established programs has been quite severely reduced.

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The specific background here presumably is that it was at the federal initiative that we entered into our present medicare program, a program which I strongly support. The original concept was that the government of Canada would pay half the cost for any participating province. Naturally, all the

provinces now participate, but the formula for the federal government's paying half the cost has generally and gradually been depreciated over these years.

I can understand that, although I do not like it, because these costs have escalated at such a rapid rate, as the community, in this case the community of Ontario, requires and is prepared to pay for a very good hospital and medicare system. We have had lots of debates about that and how it can be improved and how costs can be controlled. Essentially, it is my view that the taxpayers are prepared to pay the costs for the program as it goes forward.

Unfortunately, as these programs have become established and recognized, the government of Canada, looking at its own substantial deficit problems, has seen fit on its own behest unilaterally to say, "We are not going to pay the amount of money that the formula would require." The most recent reduction was announced by the government of Canada just about 18 months ago. The members will remember that there was a lot of discussion about this in the Legislature and between the officials federally and provincially because, as the payments are reduced from the federal Treasury, we have to make them up at the provincial level or else allow our health programs and post-secondary education programs to subsidize and be depreciated.

The other thing affecting this problem is that the costs of both of those programs are rising much faster than almost any other indicator in the financial and fiscal firmament. Whether it has to do with the cost of living or revenue or tax increases or anything else, the increase in the cost of health services has gone far faster than any other of these programs to make money available.

I have a sheet of information that will be distributed to members of the committee to show what I mean specifically, in that over the years the established programs financing entitlement has dropped from 8.2 per cent of the cost to 6.7 per cent. It really means that if the program had remained the way it was when this government took office, we would have had really somewhere between \$700 million and \$1 billion more money transferred from the federal level.

It is interesting to note, other things being equal, if those transfers had stayed the same, our provincial budget would have been balanced, if that word is meaningful, and we would have had no cash requirements at all. You have to balance this with the problems the government of Canada is facing with its own budget. It was its decision to reduce the rate of increase of those transfers unilaterally.

I was not the only treasurer who objected. The treasurers right across Canada objected since this was an initiative that originally came from the federal level. I do not think many of us as elected representatives from our own community are aware of anything more important that has to be properly funded, where it has to be distributed fairly and equitably across the province in this connection.

As a matter of fact, the financing levels from the federal government have fallen from about 42.9 per cent of the cost--originally, it was supposed to be 50 per cent--to 39.5 per cent. This change, which is not a very high percentage change, does represent close to a \$1 billion in adjustment since 1981-82.

I also want to say something as we talk about the structure of Ontario financing, as we go into the budget-making process more formally. Federal tax reform has resulted in substantial changes that are going to impact on our revenues here during this coming fiscal beginning April 1, 1988.

For example, the revenues we expect to get from personal income tax, unless changes are made, will be a reduction of over \$500 million. Because of the changes in the corporation income taxes, there would be a partially compensating increase, at \$80 million, as opposed to a loss of \$500 million.

I was also talking about established programs, and this gives rise to some misunderstanding. Because of the substantial reduction in our personal income tax revenues, the established programs financing formula clicks in and gives us an additional \$120 million because of the reduction I referred to. But the overall cutback in the rate of increase in established programs has really resulted, as I have indicated already, in a shortfall of close to \$1 billion for us this year. These numbers are detailed in the page that I hope somebody has distributed.

As we come into this budgetary situation with our costs for the provision of health services escalating rapidly and the costs of post-secondary education escalating rapidly as well, we are put in the position where, with respect to our support from the federal government--and this was expected and announced; it was not unexpected, but that does not mean that it is any more convenient--these reductions are of the size that I have described.

I think it is also useful to say something that, once again, we are all aware of. There seems to be a substantial feeling in the community that our health services are seriously underfunded. I believe they are seriously underfunded on the basis of what people would like to have. But most of us, looking fairly and equitably at the program as we understand it in our own community, realize that in spite of the need for extra beds, extra equipment, more facilities, more ambulances and so on, we still have one of the best health care systems in the world. It is my job as Treasurer to provide the money to maintain that and expand it in a proper, understandable and professional way.

In spite of the fact that these federal funds have gradually contracted over the years, it really means our rate of expenditure increase has been magnified, because we have to get it from other tax sources or from borrowing or from cutting other programs. That is the sort of conundrum, the problem, the riddle I face as Treasurer as we come into this particular budget-making period of time.

I thought it was worth saying that since the Minister of Finance for Canada has responded quite strongly to comments that I have made that, because of the reduction of the rate of increase of federal funding, I am facing special budgetary problems. We are not in a court of law, but I say, as I hear on TV, I rest my case. My costs are going up much faster than the rate of transfer from the federal government.

There have been expressions of concern at the federal deficit level and, as a Canadian and a Canadian taxpayer, I am very sympathetic with the problems the federal government faces. But I think people should understand that when the numbers look better federally, it puts the strain on the provincial budgets right across the country for the provision of these services.

Just briefly having to do with the economic outlook, the publication from Treasury has been in the hands of the members now for two months or a bit more. We feel it was effectively and professionally put forward. There was some controversy about the projections having to do with free trade. I think I should say something specifically about that.

I think members are aware that the policy of the government of Ontario is to foster tariff reductions wherever possible. The stated policy is to do this through the General Agreement on Tariffs and Trade which, since its inception after the Second World War, has progressively had as its aim, and it has certainly accomplished it in some degree, the reduction of these tariffs. The tariff barriers between the United States and Canada are not nearly as significant as similar barriers that restrict trade between our country and other countries in the world.

We acknowledge and are very proud of the fact that we are the biggest trading partners with the United States--that is, Canada and the United States--and Ontario is the trading province in Canada with by far the major share of this trade. This is extremely beneficial as far as we are concerned. It is the engine that creates employment and economic development more than anything else. It certainly has been over the last period of time, and it is clear that the reduction of tariffs, whether they are between the United States and Canada or Canada and any other country, is bound to increase our business prospects.

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This is pointed out in the Economic Outlook and Fiscal Review, and it is well known and supported by any kind of study that you will see anywhere. The point is that the purpose of the free trade deal that Canada has entered into was to give guaranteed access to American markets. The reduction of these tariff levels does not guarantee that and the provisions of the trade agreement do not guarantee it either. This is the principal objection the government of Ontario has had and has expressed with regard to the free trade deal.

There are other aspects that I consider to be extremely important as well, that is, the control of our energy assets, which as far as Ontario is concerned, is not adequate for the provision of our energy in the future. This is something that has probably more impact here in Ontario than it would in some other jurisdictions, but it is something we as a government wanted to bring forward publicly.

The same is true of substantial concerns in the free trade deal having to do with the control of the sale of our Canadian assets. Certainly I was raised, in my political outlook at least, to strongly favour programs that provide for the national guarantee of the provision of our energy and the conservation of our energy resources and policies that control the buyout of our resources, our businesses and our various economic facilities. That should, in our view, be more strongly controlled than is the aspect of the free trade agreement. I wanted to mention that since the economic outlook, in my view, takes a disinterested professional view of the impact of the deal on the economy of Ontario.

As I said in my opening remarks, we are looking forward to reports from this committee based on their own review, research and judgement of what steps should be taken to protect our people and our economy against the foreseeable effects of free trade. There is no doubt that some businesses will suffer and

that there will be people who are forced to change their employment under circumstances that would be otherwise unexpected. That is why I was somewhat disappointed to hear the government of Canada indicate that it had no special programs to assist the provinces and the country as a whole in the phase-in to the free trade situation, which begins in earnest about a year from now.

We believe--certainly I believe as Ontario's Treasurer--that the main responsibility for the financial aspects of this must lie with the government of Canada, and I think it is up to us to be sure that responsibility is understood by the other provinces and the Canadian government.

In closing, I believe there are two or three assistant deputy ministers from Treasury, including Deputy Minister Mary Mogford, who will be available during the afternoon to provide whatever information the committee members request. We consider ourselves, of course, the ministry that is the service ministry for this committee, the committee representing all parties and representing the concerns of the various communities of Ontario. In my view, it is performing an extremely valuable function in our democratic process, and I hope in the future that can be magnified and targeted.

Mr. Chairman: Thank you very much, Mr. Nixon. On behalf of the committee, we appreciate the co-operation and assistance we receive from your ministry officials. Mr. Morin-Strom has a question.

Mr. Morin-Strom: I found it quite fascinating that your tune has changed so much today, or last week, in responding to the latest budget, as opposed to your response to tax reform last year. In particular, I refer to your own projections on the impact of tax reform on Ontario.

Last year, you gave us figures for 1988 that the impacts were going to be minus \$411 million on personal income tax, plus \$165 million on corporate income tax, plus \$110 million on the established programs financing and an additional \$213 million from quicker collection of tax revenues, for a net impact of \$77 million for 1988. You went on to project for the following four years. In 1989, you said, there would be a net impact of minus \$18 million but in the following years you said the federal tax initiatives would in fact, in terms of Ontario, be over \$100 million each year.

Last week, you were telling the province that the impacts on the province are going to be negative, of over \$800 million for the current fiscal year, which is nearly over, and then nearly \$1 billion for the year coming up.

Why has your story changed to such a considerable degree, when there has been virtually no change in terms of specific tax measures in the budget yesterday? You knew what the tax reform package was last year, and that has not substantially changed.

Hon. R. F. Nixon: Two things: The speedup of the transference of our share of the federal personal income tax collection cannot be considered a part of tax reform. That extra money will come in the one year, on a one-time basis only. It is pretty hard to budget for the provision of hospital services and doctors and for new schools and universities on the basis of a fund that is coming not as a part of tax reform but just as a part of additional payment, that the government of Canada is saying, "We are trying to maintain neutrality."

The second thing is that their calculations were based at the time of the white paper last June. The economy has changed considerably since then. We

have been dealing with the officials at the federal level--our own officials have been dealing with the officials at the federal level--and these numbers change. These are the best numbers that we have now, and as I go into the planning for a budget that I hope to present to the Legislature some time in April, these are the numbers we have to base them on.

That is the answer to the question. There it is. I think we should also be aware of the fact that in the changes for corporation income taxes, as we project out into the fourth and fifth year, the projected rates of growth of the economy are federal projections. You will notice that the official federal projection now is continued growth through the decade, with even a balanced federal budget some time in the 1990s. I personally feel that is more optimistic than the projections we have to go on here. We have taken the federal numbers, reviewed them carefully, and these are our projections for our upcoming budgetary position.

Mr. Morin-Strom: I think if we look at the detailed breakdown, the changes are not really significant on the tax side. For example, if I look at the year coming up, 1988-89, on personal income taxes you were saying last year that the impact was going to be negative \$437 million. Now you are saying negative \$510 million.

Hon. R. F. Nixon: That is right.

Mr. Morin-Strom: That is less than \$100 million of the difference. On corporate taxes, you were saying last year that the impact would be plus \$312 million and now you are saying it is going to be plus \$80 million. That is a pretty significant difference, of some \$200 million.

However, the big impact seems to be on the established programs financing. Where last year you were saying \$107 million, you are saying \$120 million here on the one page. But the issue you are really getting at, in getting at your \$991 million, is just the transfer issue; it is not the revenues from personal taxes or corporate taxes. On the transfer--it is interesting--you are saying we are going to have a negative impact. The big figure is the \$991 million, nearly \$1 billion, in 1988-89.

Hon. R. F. Nixon: That is EPF alone.

Mr. Morin-Strom: That is right. Last year, you were saying the EPF would be a benefit of \$100 million.

Hon. R. F. Nixon: No.

Mr. Morin-Strom: Yes. You were saying our revenues would be plus \$107 million from EPF.

Hon. R. F. Nixon: There are two things there, and I tried to make that clear in my original statement. It is true that when federal initiatives on personal income tax collection agreement result in a reduction of revenue--and there is a huge reduction in revenue, of about half a billion dollars, \$480 million to \$510 million, or whatever those numbers are; we now believe it is \$510 million--then the EPF formula clicks in and increases the amount of money available to any province that has a reduction in personal income tax revenues in order to make that up.

This is made up only on the basis of tax reform, but quite aside from tax reform in that sense, the government of Canada decided, about six months

after it took office, that it could not continue to transfer to the provinces on the old formula that had been established by the previous government to pay for post-secondary education and health. They uniformly announced that it was being reduced.

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Normally, you think of this as a tax agreement. It is not an agreement. We simply get what they say we are going to get and there is nothing we can do but object. The interesting thing is that all the treasurers objected. As a matter of fact, I think I was the only Liberal treasurer in that special committee of treasurers, and I was quite amazed at how vociferous the political friends of the new government were in the reduction of those amounts.

It does not make an impact the first year. They say, "We're going to do this on a phased basis over these years." We are now coming into the second and third years of the reduction and I tell you, the impact is big. We are going behind \$1 billion over what it would have been. There is not much I can do about that other than to explain to interested taxpayers that while the deficit situation looks a little bit better in Ottawa--they only required \$29 billion this year--it puts an added strain on this province, as well as the other provinces.

Mr. Morin-Strom: But these programs that are hurting us in the EPF, in fact, go back all the way to 1982, as your document shows.

Hon. R. F. Nixon: That is right.

Mr. Morin-Strom: None of them has been implemented since your reaction last year. So you knew what was happening. In fact, some of them came from the previous Liberal government. But why are you now bringing this up as the big issue, that we are \$1 billion behind where we would have been if we were under the same rules as we would have been back in 1982?

Hon. R. F. Nixon: Because it is true.

Mr. Morin-Strom: Why did you not bring it up last year?

Hon. R. F. Nixon: They are supposed to pay half the cost of medicare. Now they are not doing it. To tell you the truth, it has a strangely interesting comparison with expectations, for example, in the cost of education around here. People would like our Treasury to pay more of the cost of education and we can only do the best we can.

The same is true of the federal Treasury. They have said unilaterally, "We're going to pay less." And it is less and we have to make it up in a program that is growing more rapidly than any other program.

Mr. Morin-Strom: But why are you so negative today, when you were so positive and rosy about projections a year ago?

Hon. R. F. Nixon: All of my responses to the change in the established programs financing arrangements have been negative. There is nothing good about it, because it takes so much money out of the transfer arrangements from the federal Treasury to our own.

There is nothing I can do about it. Some people say, "Well, Wilson's problem with the deficit is greater than ours." That is a judgement that has

to be made, but those of us who are interested in the finances in Ontario can see that I am going to have to find the money from somewhere--maybe take it out of other programs, maybe borrow more, maybe get more tax revenues.

Mr. Morin-Strom: That is fine on that.

Mr. Chairman: I note that our document, on page 77, has a chart which indicates losses due to federal EPF cuts since 1982, so some of that information has been available to us.

Treasurer, in November of last year you made a statement to the Legislature in which you expressed serious concern about a broad-based sales tax as part of the national sales tax that is being considered in tax reform. You were concerned about the impact on low-income Canadians and the fact that it might have some negative impact in that they will not easily gain back the moneys that supposedly they will have paid out in sales tax. Has any of your concern been addressed in the last two or three months?

Hon. R. F. Nixon: A couple of things have happened. At the last meeting of the treasurers with the Minister of Finance for Canada, he indicated that any sales tax that was established jointly with the provinces at the federal level would not include food. He also said that he recognized the problem that would be faced by the provinces if the various agencies in the provinces, such as school boards, colleges, hospitals, municipalities, all had to pay the new federal sales tax even though there was a provincial share in it, that this would mean a very large additional transfer from our agencies to the federal government. It was not his intention to put additional taxes on education and things like that, and we were discussing how we might get around that. I thought those two things were quite worth while.

In general, I would say that we are not moving rapidly towards an agreement in which a so-called national sales tax would come into being. We have a well-understood sales tax mechanism in the province; all other provinces except Alberta have that. While a lot of people do not like paying sales tax, mostly because it is up front and you know you pay it every time there is a bill--it is the kind of tax that has an impact every time you pay a bill--still, that is quite healthy and quite democratic; I have no objection to that.

A federal tax would tend to be hidden, as the federal sales tax of 12 per cent is hidden now in the wholesale cost. You only pay the upfront, direct sales tax when it is a retail sale. The federal policy is definitely to change its manufacturing wholesale tax in the future, but as a politician, I would say that maybe any definite action on that at the federal level will have to wait, perhaps for a federal election. So it could be six months, a year, 18 months away. I have no way of knowing.

Mr. Neumann: The reduction in federal transfer payments, areas of specific programs, has certainly had an impact on the provincial scene; you have detailed that for the last two or three years and projected it for the next few years. If one goes back a longer period of time, is this part of an ongoing trend which started some time ago and has been escalating?

I can recall an announcement being made back in 1980 that the federal government was no longer going to participate in a program called NIP, the neighbourhood improvement program, where it once paid 30 per cent, the province paid 50 per cent and the municipality 20. It became simply ONIP, the Ontario neighbourhood improvement program; the federal portion was gone. Is this part of an ongoing trend that has been occurring over a number of years?

Hon. R. F. Nixon: I have been quite concerned that wherever there is a shared jurisdiction or a shared responsibility there has been a tendency for the federal government, particularly as its deficit situation has become more and more onerous, to shut the program off and say to the provinces, "You can go forward with it if you want but we are not participating to the same extent," or, in many instances such as NIP and ONIP, "We are not participating at all."

One of the big aspects is the whole area of housing programs. Certainly, it is not long ago that Canada Mortgage and Housing Corp. was a major player in the provision of funding even for infrastructure, such as sewers and water, at the provincial level. They have identified those as wholly provincial responsibilities and the transfers for housing have been substantially reduced, at least in the rate of increase, in that whole area of responsibility.

I have already talked at some length about the federal government policy having to do with post-secondary education, which includes grade 13 or its remnants, and also the provision of health care. By the time you put post-secondary education, health care and housing in the area where the federal support is withering, it is a very heavy additional fiscal burden that the provinces have to carry; not just Ontario, the other provinces as well.

Mr. Neumann: At the time this report was produced by your ministry--Economic Outlook and Fiscal Review, Ontario 1987--the Canadian dollar was somewhat lower than it is. Indeed, we have seen remarkable moves in the Canadian dollar towards the 80-cent mark. Have your officials advised you on how this will change the projections for 1988-89?

A second part to that question, and related to it I feel, is that the monetary policy of the federal government appears to be to maintain interest rates higher than some people think is necessary in order to keep the Canadian dollar high. In fact, I have some articles in the weekend financial reports which indicated that the Bank of Canada is pursuing a fairly conservative monetary policy with regard to money supply and interest rates and that this pleases the Americans somewhat in that it keeps our dollar up.

Do you have any comments on that? Do you share that direction or would you like to see it a little more liberal?

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Hon. R. F. Nixon: I think the relative value of the Canadian and American dollars is probably the single most important competitive aspect of doing business in Canada. As you know, it went down about a year ago to under 70 cents. It hung around 72 to 73 cents for quite a while, and in the last three or four months it has gradually gone up until it is just under 80 cents now and may in fact crack 80 cents this week or next week. There is some expectation that it will fall back, perhaps to 78 cents, although once again you are looking into a crystal ball, and while there are people here who will be available later this afternoon who are economists and can answer that more specifically, long-range indications are that the expectation is that it will hover around the 80-cent level and perhaps a bit below it.

There is nothing magic about 80 cents. I have heard business people say, "Once the Canadian dollar gets to 80 cents, then I lose my competitive edge." I think we must understand that as the value moves up and down, the lower it is, the easier it is to manufacture here and sell in the United States, and as

the price goes up, the harder it is to do business. For each competitive situation there is no doubt a level beyond which business will not work effectively, and as it goes down, the ability to compete becomes ever stronger. The value of a relatively low Canadian dollar is extremely great. You do not like it when you go on holiday to Florida, but in almost every other way it is a great advantage.

The effects of federal monetary policy on this are obvious. I too have read the articles that have complained that they are needlessly conservative, with a small c, and that, in fact, our interest rates could very well be allowed to drop. The judgement there is made by the Bank of Canada, and I am not really familiar with the extent to which the Department of Finance either dictates or advises on that.

I know there is great value in having an independent position there, which has been traditional, to tell you the truth, in Canada. I feel they have that independent responsibility, looking at the best monetary position for the whole country. But our interest rates are definitely higher than the Americans'. The gap between our inflation rates has closed quite a bit as the economy of the United States has changed. There is still a slightly higher inflation rate here, but we are expecting ours to go down during the coming year by maybe a half of a per cent. In other words, the movement once again is in a good direction from our point of view.

I cannot give you a stronger answer. I would like to see low interest rates. There is no doubt that after October 19, when the government of Canada and the other G-7 countries moved to improve liquidity to offset what otherwise might have been a drawing back from business commitment, interest rates fell by a half to three quarters of a per cent. It was definitely advantageous to stimulate economic decisions at the time and, I think frankly, was a very good move indeed by all the G-7 countries. But that pressure seems to have been changed almost as if they had overcompensated at that time, and to stimulate the economy, we need a lower interest rate. I hope it is forthcoming.

Mr. Neumann: If I may follow up on that, some of these articles suggested that the conservative monetary policy of higher interest rates leading to a rise in the Canadian dollar is done with not only the tacit approval but also the encouragement of the Minister of Finance at the federal level. Do you share the view that this may be part of an orchestrated plan to maintain the Canadian dollar at a higher level in order to ease the concern of the protectionists in Washington until the free trade agreement is approved?

Hon. R. F. Nixon: I have heard that theory, which I am not going to designate the paranoid theory, and there have been those who stated at the time of the approval of the free trade deal that there might have been an understanding that the Canadian dollar should, in a healthy American-Canadian relationship, move up to 80 cents.

When questioned, the Minister of Finance has stated categorically that there has been no deal in that regard. Naturally, I have to take his statement at face value. I believe it. I would let it go at that.

Mr. Mackenzie: When you ended your comments on the free trade impact, I sensed that you had almost accepted it as an accomplished fact, as something we had to face. Is that unfair or does that reflect your thinking?

Hon. R. F. Nixon: I think we would be unwise to assume that free

trade is not going forward and, therefore, that we do not have to plan for the dislocations associated with what is going to happen. For us to sit back and say, "This is not going to happen; therefore we do not have to make the plans for adjustment," would be unwise.

On the other hand, having followed the opening of the discussion in the congressional committee, I can see that not everybody in the United States thinks this is a great idea.

I have listened to some of the candidates for the nomination for the presidency of the United States, particularly on the Democratic ticket, and they were extremely negative as far as trade proposals are concerned, although they normally said, "We support the Canadian deal, but in general we want to protect our jobs and our economy."

When I listened to some of those speeches, it seemed to me the free trade deal may be in some jeopardy, and even it was to be successful the attitude of at least some of these candidates, from my point of view, is extremely protectionist and would bode ill for our prospects.

Maybe I could continue with that when I hear your next question, because you taxpayers insisted that I go to a conference in which there are a number of business people, including trade experts and Ambassador Yeutter, and I had a chance to discuss those prospects with him in a forum, not privately but in a forum.

Mr. Mackenzie: It is my impression that our salvation will not come from a rejection in the United States. I hope the dislocation does not mean that your mind is closed in terms of a tougher statement from this province, by this committee, in terms of whether or not we should be speaking out a little more forcefully on this particular deal.

Hon. R. F. Nixon: There was a small reference in the Toronto press to an exchange that I had with Yeutter at the international conference in Switzerland in which I asked him about a statement he had made when he was speaking in Toronto before Christmas to the effect that unless all provinces participated he could not see that the deal could successfully go forward.

I think you are aware that the Premier (Mr. Peterson) has indicated that while we are very much in favour of increasing trade--I think that is worth saying each time--there are aspects of this deal that mean we do not support it.

I brought that to Mr. Yeutter's attention. The exchange depreciated a little bit when he indicated that anybody who would look at the deal "honestly," that was his word, would of course see the usefulness of the deal and support it. While we have looked at it honestly and carefully, and with substantial professional advice, we have rejected the deal. It was on that basis that I got around to asking him about his view as to whether all provinces had to be on side.

I was interested to see that when the discussion began in Congress, one of the aspects was whether or not all the provinces were on side and whether all the provinces would participate. The spokesman said the US government expected the government of Canada to procure that agreement or establish it in some other way.

Mr. Mackenzie: There was some reference from my colleague the member for Brantford (Mr. Neumann) that one of the studies we had referred to this committee from your ministry, giving some credence to possible improvements as a result of the free trade arrangement, seemed to have been based on a depreciation of three and a half cents on the Canadian dollar over a five-year period.

I guess I am questioning that simply because it did become a question that was asked of almost every single one of the business groups before this committee and nobody else agreed with it at all. I guess the concern I expressed at the time as to why we did not do a similar study showing a 3.5 cent increase in the value, rather than an increase in the difference, might have made more sense, given what has happened.

I am just wondering if you have any comments on that.

Hon. R. F. Nixon: I think those studies were made on the basis of a 72-cent dollar but with the expectation that during the next number of years, for forecasting, we would be dealing with a 75-cent dollar.

I say once again that most studies show that a reduction in tariffs will stimulate trade and we used adjectives that were designed to indicate that the value of this is measurable, certainly, but not of huge proportions; as a matter of fact, very small proportions.

Mr. Mackenzie: As a general question to you, looking at your budget, I know you have some sympathy--at least, I sensed it at the luncheon we had--as to the amounts of money that can be raised in terms of sales tax. Is that something you have been actively looking at or is that not a priority approach? I am not saying you favour it, I just think you are obviously--

Hon. R. F. Nixon: I hope the tax changes that occur will be seen to be fair and equitable, if there are tax changes. I find I have to do a lot of dancing in this business during the eight weeks leading up to a budget. Anything a person might feel that I say that is associated with a decision taken is simply wrong. Decisions have not been taken.

We are looking at the rate of growth of programs, particularly expensive programs where huge amounts of money are entailed and where proper community expectations are high: the provision of improved health services and improved post-secondary education and so on. I will not go through that list every time. It is our feeling as a government that we want to do everything we can to move in the direction of meeting those expectations, so we are looking at all alternatives. That is in direct answer to your question.

Mr. Ferraro: I have one general question for the Treasurer. I apologize for missing part of it; I hope you did not answer this one.

Hon. R. F. Nixon: You did not miss much.

Mr. Ferraro: I will read Hansard in any event.

The scenario I am sure you are well aware of and we are trying to make Ontario aware of is that, obviously, if the feds are cutting down the amount of money they are giving to the province--Ontario, in this case--

Hon. R. F. Nixon: Let us make it very clear that they are cutting down on the rate of increase. We cannot string them up for too much there.

Mr. Ferraro: I think you said last year that we were going to lose, over the next five years, \$2 billion in transfer payments. Is that still not the case?

Hon. R. F. Nixon: Yes, that is right. The cumulative total in five years would be that much. The amount that we would have had, going back to if the universe had not changed on us, would be \$1 billion or close to it, \$991 million, for this coming fiscal year.

Mr. Ferraro: The real question I want to get at that has me somewhat concerned is that when I looked at the sheet that showed the prospects for real growth and inflation in Ontario, it is going to get progressively worse. Albeit it is fairly strong, it is not as strong as it was for this current year; not as strong as it was in 1987.

For example, in 1989-91, and I realize it is hypothetical to some degree, we are looking at 1.9 per cent growth and inflation of roughly 4.2 per cent.

The pressures that you are acutely aware of, of course, are that you reduce programs, you reduce the rate of transfer payments to municipalities, which puts pressure on municipal taxes, you increase taxes, you increase the deficit or all four of the above.

Only the budget will indicate which path you have chosen, and I appreciate that, but my question specifically is to the deficit. I was reading recently where somebody said--I think it was as a result of the federal budget or whatever the hell it was that Wilson gave us last week--that 30 cents out of every federal tax dollar goes for interest towards the federal deficit. I think it is roughly 10.5 cents in Ontario.

Hon. R. F. Nixon: Less than 12 per cent.

Mr. Ferraro: Substantially less than 30 per cent anyway. Let us say 12, for the sake of argument. My question to you is, as the Treasurer of Ontario, how do you feel about increasing the deficit or the pressure to increase the deficit? I do not know if you want to touch Ontario Hydro's deficit; you just deal with Ontario's.

Hon. R. F. Nixon: Unless the committee wants to get into a discussion of the financing of Ontario Hydro, I will not touch that other than to say it is a huge debt. The whole thing is covered by capital assets that are producing electricity and will produce electricity in the future, God willing. So the idea of paying for that on a year-by-year basis out of our income from electricity does not make any sense at all. That is another argument entirely.

Our budget has not required additional financing by borrowing since 1971. That does not mean it is a good thing that additional borrowing comes in every year. On the other hand, we do have substantial capital borrowing that we undertake year by year. This year it is about \$2.6 billion worth of new buildings, new roads, bridges, other facilities. I do not see anything wrong with a borrowing program that takes that into consideration. A so-called balanced budget, where you do not borrow anything for capital, in my view does not make business sense.

There is something else I just want to mention, though, and I think the Globe and Mail referred to it today in a kind of esoteric article about what

is the deficit. They were pointing out that the number reported federally, the budgetary deficit, is not the cash requirement as we report here. But beginning in the budget of 1985, I reintroduced the budgetary deficit number, which really does include a number of other provisions. For example, in our net cash requirement, which has been sort of the magic number over the years here, that has been reduced by a number of things, including the deposits in the Province of Ontario Savings Office, which range from \$80 million to \$120 million.

Beginning in 1985, we introduced the budgetary deficit number, which I think is quite significant, although higher than the cash requirements, of course. It is my intention to emphasize that number, which more readily compares with the deficit figure at the federal level and with some other provinces. I hope we can move toward some more uniformity in this so people like ourselves and taxpayers everywhere can find the financial statements from the provinces and the government of Canada more readily understood and more easily compared.

Mr. Ferraro: Just as a derivative, one of the points you made in your budgets, which really did not get much publicity and perhaps should not, was that we do not have any foreign debt as a province. I am wondering if you wanted to comment on that? In essence, we are paying ourselves?

Hon. R. F. Nixon: Yes, that is right. Most of our borrowing, as you know, in recent years has been from the Canada pension plan and the teachers' superannuation fund. As a matter of fact, by law we guarantee the teachers' superannuation payments; and there was an important report which I tabled last week dealing with the superannuation indexing fund, which is another matter once again.

One of the very interesting reports last week, when you get around to reading the detail, calls for the investment of our share of the Canada pension plan premiums and the teachers' superannuation premiums, as well as those of the Ontario municipal employees retirement system and the hospitals of Ontario pension plan and so on, not in government of Ontario bonds but in marketable securities, therefore requiring the province to go out and borrow money, as it did in the past for its cash requirements. In other words, the money would not slide directly into the provincial Treasury.

There is some thought that the return to these various pension funds would be strengthened by doing that. The thing that also attracts me, for example, is that we pay an average of about 12.3 per cent or 12.4 per cent on the money we borrow from the teachers, but Ontario's credit is good enough to go out into downtown Toronto, New York, Montreal, Tokyo, Frankfurt or London and borrow at about an average one per cent less than that. So that for our interest payments, it costs us more to borrow from the teachers' fund, which we also guarantee. The teachers, of course, are deeply involved in this and are very anxious that their pension position be as good as they can make it, naturally, but also secure. This is another responsibility that we all have through the Treasury of Ontario, so those borrowing situations may very well change.

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The last time we did any extensive borrowing offshore was, I think, when Darcy McKeough, of note and high regard, decided to go to Germany and borrow deutsche marks. I remember that because there was some debate in the Legislature about it. Unfortunately, this was before the very sophisticated

currency swaps were understood, so when we borrowed the deutsche marks and the relative values of the currencies changed dramatically, we ended up paying a lot more back than we had borrowed, a situation that I find difficult to describe but which the lady who is translating into French understands very readily.

The last occasion when this happened resulted in Ontario's being burned a bit. I believe it was in last year's budget that I reported, just in a word or two, that we had paid off the last of the famous deutsche mark loan. Everybody in business, I guess, gets involved in something like that every now and then, where the advice, or at least the decision, was not totally advantageous. It is always a relief when you get that dead horse paid for and hauled away.

There is a tendency for us to shy away from any kind of borrowing procedure other than what is sometimes described by my chief advisers in this as plain vanilla, where you go down and borrow the money, sign a paper, give it to them and everybody knows what is what.

On the other hand, we are expecting to introduce legislation that will give us a certain amount of flexibility in these esoteric but now fairly readily understood currency, interest and term swaps. If you want to know all the detail on that, I would be glad to discuss it further, but normally I suggest that you call up the officials in Treasury.

Mr. Chairman: I have four other people now who want to ask you questions. I know it is two o'clock. We will keep you here as long as--

Hon. R. F. Nixon: I will be glad to accommodate the four, if I can, and then we will get on our way.

Mr. Villeneuve: Over the last three years, I believe, the gross income of Ontario has gone up by something like a third because of a buoyant economy. Would that be close to being right?

Hon. R. F. Nixon: We have also broadened our revenue base; i.e., raised taxes.

Mr. Villeneuve: We have noticed, yes. In 1985, Standard and Poor's reduced our creditworthiness from triple A to triple A minus or something in that range.

Hon. R. F. Nixon: Double A plus.

Mr. Villeneuve: Is there any chance that they would be looking at us again and bringing back that triple-A-plus rating, or is that of any consequence to you as Treasurer?

Hon. R. F. Nixon: I do not think about it very much, frankly. I notice that the newspapers from time to time phone up Standard and Poor's and ask them. The people in New York say that they are having regular reviews. We predicted, when the rating was established at double A plus from Standard and Poor's, that it would not affect the cost of our credit, and that has been our experience.

We should remember that we are still triple A with Moody's, which is the other large New York rating agency; so I can still say, if I want to, that we are the only triple-A provincial jurisdiction.

Since you ask, it would be nice to be perfect, but I would be the first to admit that I fall a bit short there.

Mr. Villeneuve: So it is not of great consequence to our borrowing or to our cost of borrowing.

Hon. R. F. Nixon: No, we do not consider that it has measurable significant additional cost.

Mr. Villeneuve: Standard and Poor's has seen fit to leave us at that lower rating, in spite of a very much broadened tax base and tax revenue.

Hon. R. F. Nixon: Yes. I cannot predict what they are going to be doing in that regard and I have not followed up on it. At the time, I said that we liked to make our priorities here. We would like to be seen as a creditable administration. We believe that the way we are seen in the international markets is creditworthy.

Mr. Chairman: I know the Canadian Bond Rating Service also has us as the only province that is triple A.

Hon. R. F. Nixon: Right.

Mr. Kozyra: Mr. Nixon, in recent statements Mr. Wilson has not only talked of a balanced budget but projected the elimination of the national deficit in the 1990s. I am wondering to what extent, in view of the trend on transfer payments, that could be made at the expense of the provinces in the reduction of transfer payments.

Hon. R. F. Nixon: I think you are aware that his response to my view already expressed was not positive. Listen, I do not blame him for this. It is probably time that we had a difference of opinion. But I really do believe, and I say again, the fact that the rate of increase that the federal support has decreed has certainly not been sufficient for it to keep up its share of our costs of medical services, including doctors, hospitals and post-secondary education. It could very well be, as you point out, that the numbers, which are looking better in Ottawa--although they still look terrible, to tell you the truth; their deficit is at a very high level--are accomplished largely by shoving off on to the provinces a larger share of the costs of these very expensive programs.

Mr. Kozyra: Staying on the transfer payments, I am interested in the kind of discussion or input that the provinces do have when the determination of the level of transfer payment occurs. Do you have input as provinces, or is it basically a decree that comes down?

Hon. R. F. Nixon: It is a decree that comes down. To be fair, I think it began after the Second World War as an agreement between the provinces and the national government; but then some time in the late 1970s and 1980s, when it did not seem to be possible to get agreement, there was a certain basic difference of view between the provinces and the government of Canada, and the government of Canada finally said, "Well, we are not going to get agreement, and this is the way it is," and they started the reduction.

Since then, I would be the first to say that Mr. Wilson has undertaken lots of discussions, but it is very hard to get an agreement among the provinces when the government of Canada wants to cut the rate of increase of transfers. So none of the provinces agreed, and he finally just said, "Well,

that is the way it is going to be." There were substantial objections, not widely reported, because it did not have a budgetary impact to start with. Now the impact is being felt, and the Minister of Finance for Canada can report certain positive aspects, and I am reporting to you the prospect of negative aspects. It is quite plain and obvious that that is the trend.

Mr. Kozyra: One final question. In your Economic Outlook and Fiscal Review you project a possible future labour shortage for Ontario based on trends: 1987 labour force growth rate, 2.3 per cent; 1988, 1.9 per cent. Were the possible effects of free trade--what are euphemistically called adjustments in the labour force, reductions--were they taken into account in that figure?

Hon. R. F. Nixon: They were taken into account as the projections for the next three years were brought forward. For example, I believe the projection in here for unemployment next year--we are about 5.8 per cent now; we think we might go to 5.7 per cent or 5.6 per cent. It is not a big decrease, except that it really is quite amazing that after very, very high levels of unemployment, the province of Ontario is down to an average projected of about 5.6 per cent, 5.7 per cent.

In the chairman's home town I believe the unemployment level is less than three per cent.

Mr. Chairman: It is 2.9 per cent.

Hon. R. F. Nixon: I would think the unemployment level in Metropolitan Toronto is something the same, maybe just above three. You could still find lots of communities in Ontario, obviously, where the unemployment level is quite high, so these averages are somewhat misleading. But it does really mean, particularly with the demographics of the province meaning that the numbers of people going into the labour force are not increasing at as rapid a rate, that employment prospects are increasing, our unemployment levels will continue to go down and in many communities there is going to be a shortage of labour. A lot of young people are prepared to respond to this, and some people not so young, too. They move around to where the jobs are, and that gives rise to additional problems involving affordable housing, which we are experiencing here and which the Kitchener-Waterloo area is experiencing as well. There are still some towns, unfortunately, where these statistics are not apparent and where the change has not been quite so apparent and it is still possible to find reasonable and affordable housing and a good job. Labour flexibility and mobility are quite important.

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Mr. Neumann: I just want to further explore the question of the deficit and the relationship to the capital portion of the budget. You mentioned \$2.6 billion in capital projects and you said new capital projects. Are all of those new or are some of them replacement?

Hon. R. F. Nixon: There is certainly some replacement and there is certainly some renovation of a capital nature.

Mr. Neumann: Are they on top of this \$2.6 billion?

Hon. R. F. Nixon: No, part of it.

Mr. Neumann: What do you think would be a reasonable kind of relationship between deficit and the capital portion of the budget?

Hon. R. F. Nixon: If we think of our cash requirement as the deficit, that is really not appropriate because there is other money that we actually borrow which does not get counted as a cash requirement. For example, we have already talked about the money that comes from the Province of Ontario Savings Office, but it seems to me a government can argue effectively that for significant planned capital programs that are going to serve the community over a period of years, often 20, 30, 40 years, to pay for that out of our ordinary everyday income does not make sense. That, in fact, really means you are taxing more than you should.

In my view, if you get the proper accounting procedures, we should feel justified in borrowing a reasonably high percentage of our capital, I would say, two thirds to three quarters.

Mr. Neumann: As a follow-up to that, perhaps that is something we might request additional information on, or perhaps I have not spotted it in the volumes of information.

Hon. R. F. Nixon: OK. We would be interested in responding.

Mr. Neumann: That is, a comparison of how the deficit is calculated in Ontario and federally and the relationship of capital spending to deficit, provincially and federally, so that we can get some guidelines.

Hon. R. F. Nixon: By the way, if you do get some additional information on that--we have some information as well--I am thinking of the possibility of changing the way we report to make it clearer and better understood. I would be glad to get your recommendations on that.

Mr. Neumann: Thank you.

Mr. Chairman: Mr. Morin-Strom, very quickly. One question.

Mr. Morin-Strom: I want to get back to this issue of your response to the federal Treasurer's budget last year on which all the media coverage focused on comments such as this quote, "Their change in the approach to the established programs financing is trimming their deficit at our expense to the tune of \$1 billion this coming year."

I note that on the \$1 billion, or \$991 million, you have given us a breakdown today, and the clerk has passed out a copy of your Economic Outlook and Fiscal Review which came out in December 1987. In fact, you had already prepared those figures at that point and they were not a response, in fact, to this budget. But you have the breakdown here of the impact for the upcoming year and that breakdown is covered 60 per cent by initiatives that were taken by the federal government in 1982, the six and five and the revenue guarantee compensation.

So your criticism, in effect, is a criticism of fiscal mismanagement and unfairness to the province of the former Trudeau Liberal government, primarily, and I wonder whether that is your prime purpose here or, in fact, is your purpose to give you an excuse for a \$1-billion tax increase in the upcoming budget?

Hon. R. F. Nixon: I do not think it is fiscal mismanagement if the government of Canada decides to reduce its own costs and other governments have got to pick it up. It is a decision that is taken that I do not like, but it is quite within the purview and jurisdiction of the government of Canada to

do that. In the statement I made, I said beginning in 1981 these changes have resulted in a decrease in the growth of the costing and payment for established programs financing.

Going back to what I can remember was an agreement made by the government of Canada--I think it was when Lester B. Pearson was Prime Minister--that they pay half the cost of medicare. We had a big argument at the time whether that included mental hospitals and so on. If they were paying half the cost of medicare, I would have a big surplus now. So they have gradually cut that down.

You may have thought this was a response only to the budget. It is a response to federal policy that has been gradually cutting off the transfers to the province. One of the big items in the federal budget last week was a continuing and lengthy statement about how well managed federal fiscal affairs are. My point is: Sure they were managed well in the reduction of the deficit, on the basis of offloading to the provinces more of the costs for established programs financing. If I am not going to point out that, who is? I thought it was quite appropriate.

Mr. Morin-Strom: But the perception of the public was that it was an immediate response to an action taken by Mr. Wilson, or potentially even to the tax reform of last year. In fact, it is a criticism of the former Liberal federal government--

Hon. R. F. Nixon: I do not care about that.

Mr. Chairman: The problem is that the press and--

Hon. R. F. Nixon: I do not have any political slant on this whatsoever, and I am amazed that you would--

Mr. Morin-Strom: There is only one alternative left, then.

Mr. Chairman: I do not think, in fact, that Mr. Wilson's budget really addressed that in a way of change.

Mr. Nixon, thank you very much. We appreciate your spending extra time and also the offer to meet with us again before budget time. We will be spending the next six days hearing submissions concerning the budget and tax reform. We will be preparing a report, hopefully by the end of next week to you so that it will have some input.

Hon. R. F. Nixon: It could work out that when I get your report, which I am certainly looking forward to, we could have an informal meeting following that and before the budget is buttoned up.

Mr. Chairman: I think that would be very helpful.

Hon. R. F. Nixon: Thank you.

Mr. Chairman: Thank you very much.

Dr. Bryne Purchase will be carrying on, on behalf of the Ministry of Treasury and Economics. For those members of the committee who may be a little confused, I apologize. Midweek last week, we did do a change in our agenda for today. We put off until the end of today the discussions of the economic reviews we were going to have regarding free trade, so Mr. Nixon could be with us at one o'clock.

Mr. McCague was in at one o'clock indicating that he was here for that purpose and could not come at four o'clock this afternoon but would be able to be here on Wednesday for those discussions. If the committee agrees, maybe some time can be found on Wednesday. That means we have the rest of the afternoon to deal with the officials from Treasury with regard to the basis of the economy at the moment.

If there is any discussion on that I will hear it now, or later if you wish. Otherwise, we will carry on.

I understand, Dr. Purchase, that you wish to make a slide presentation.

Dr. Purchase: No, sir. I have changed my mind about that. I know the committee does not have a great deal of time to consider these things, so I--

Mr. Chairman: Last year we spent days and days with you going over every sentence in here, but today hopefully we will do it all this afternoon.

Dr. Purchase: Right. I will very briefly go over some of the highlights with you, because I am sure everyone has read the document. We are not presenting a new forecast, so none of the numbers has changed. I do not think a slide presentation would be anything more than what you already have in front of you. I had thought it might be a useful device to help speed this process, but I had so many slides that I thought it really would only slow it down, in effect.

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Mr. Chairman: Perhaps you can lead us through the document as you wish. Members of the committee have a copy of a résumé of the document which was prepared by Anne Anderson from research. Perhaps we can get you a copy of that in case questions come from that document instead of your own.

Dr. Purchase: Yes, that would be appropriate.

In terms of the economy, I might remind the committee that when we did this forecast, we were in fact right in the midst of considering the effects on the economy of the October 19, 1987, stock market crash. At that time, there was very considerable concern that the stock market crash may portend a recession.

As we looked at that, obviously, as you see what we said in December, we felt that the economy would continue to grow and although the stock market crash would have some negative impacts on the economy, it would not produce a recession in 1988. In fact, the economy would enter its sixth consecutive year of economic growth, which is the second-longest economic expansion since 1950.

Nothing has happened since that forecast to change our minds. If anything, the employment growth in November and December of last year was even stronger than we had anticipated. I think the important thing to remember is that the economy, from our point of view at this point in time, will continue to grow at what we think is a relatively strong rate in 1988. That rate is lower, however, than the 1987 rate. In 1987, the real growth in the economy was 3.9 per cent. We anticipate that in 1988 the economy will grow in real terms by 2.8 per cent.

Incidentally, I might point out to members, as we have pointed out in the document, that last year when we did the forecast of the inflation rate,

we did not attempt to develop an Ontario consumer price index. The main reason for that was that Statistics Canada has not published such a number and we felt it would have been confusing to do that. So we are always forecasting the national rate.

However, since then, because last year and the year before there had been significant differences that we had observed between the Ontario rates of consumer price increase and the national rates--rates that we had not seen historically before--we felt it would be appropriate if we did try to develop an Ontario consumer price index. We took some information that is published and available from Statistics Canada--that is, the consumer price indices of three cities, Toronto, Thunder Bay and Ottawa--plus some unpublished confidential data that were supplied to us on some other cities in Ontario, and we developed an approximation of consumer price increases in Ontario.

That number was significantly higher for Ontario last year than the national number. The number that we show in the document was 5.1 per cent compared to a national increase of 4.4 per cent. The differential between the Ontario number and the national number was accounted for largely by the increase in housing prices in Ontario last year.

If you look at the performance of the two indices--that is, the Canadian and the Ontario CPI--over the course of 1987, you will see that they began to move closer together as housing prices moderated significantly in terms of price increases in Ontario. The two numbers are now very similar. We see the 1988 price inflation to be--our forecast for Ontario--about 4.7 per cent. So we see it coming off 5.1 per cent in 1987 to 4.7 per cent in 1988.

In terms of job creation, we think job creation will be somewhat less in 1988 than it was in 1987. The 1987 number is 151,000 and we think we will create somewhere over 100,000. Right now, our forecast is for 105,000. We are looking at that closely to see if that number may not be a little modest.

In terms of the unemployment rate, we are forecasting an unemployment rate averaging 5.8 per cent through the year, although it is currently at 5.6 per cent. Again, our feeling is, the numbers surprised us a little bit at the end of the year, because there is such an incredibly strong job creation in the provincial economy, so we are taking another look at those numbers.

The big story, as I said, when we did this forecast was obviously a concern about the impact of the stock market crash on the economy. There is now widespread consensus that the impact was negligible. Similarly in the United States, the US economy will continue to grow in 1988 at a somewhat reduced rate than its 1987 growth rate but there will not be a recession in the US economy in 1988. Our forecast is now of a US growth rate of around 2.3 per cent. I think that is fairly close to what most people are saying, 2.3 to 2.5 on the US economy.

The story most currently--it was referred to, in fact, in some of the questioning of the Treasurer--is the question of the exchange rate. Our assumption with respect to that, as you know, is that we expect the exchange rate to average between 75 and 77 cents in 1988. It is now 79 cents, but I have been in the forecasting business long enough to know that I do not change my mind just because of a very short period of data.

What you can find is that these things move around quite a bit, so I think it is premature to say we are wrong on that particular forecast. The question is, what would be the impact on the economic outlook of the higher

exchange rate. A lot of the concern there is addressed to its impact on competitiveness, but the exchange rate is not the only thing that you would look at if you were actually addressing the competitiveness issue.

You would also look at what the price increases are in the United States relative to Canada. There you find, in fact, that the gap that existed between price increases in the United States and Canada in 1987, and even more so in 1986, has closed. US prices are rising more rapidly now than before. Indeed, in the latter half of 1987, US prices were rising more rapidly than prices in Canada.

So the exchange rate is not the only factor in terms of competitiveness. If you were an American producer, you would be facing similar higher price increases for the things you are buying. I think at this stage it is premature to say it would have significant negative impact.

Clearly, if you make the assumption that the exchange rate is 80 cents or 85 cents and it is sustained at that level over a very long period of time, then that will, indeed, as we have pointed out many times in this committee, change the economic outlook.

On the question of the interest differential, it remains quite significant, as we pointed out. We pointed out that despite the declining inflation differential between Canada and the United States, the interest differential on short-term interest rates remains at a quite high level. The reasons for that, I think, are indicated by the governor of the Bank of Canada and presumably are related to a concern about inflation.

In terms of oil prices, if I might turn to another subject, we had an assumption on oil prices of about \$18 or \$19 a barrel average. They are now at around \$16 a barrel, so obviously the lower oil price boosts demand in the Ontario economy because virtually all of the oil consumed in Ontario is imported.

My sense of 1988 is that at this state we are just holding tight to our forecast. We may change the job forecasts. I am really not certain of the budget, but we are taking another look at the economy and obviously watching closely the numbers that come up to budget time. Overall, I would say the impression of the Ontario economy that we had in the fall of 1987 has really not materially changed in February 1988. We still believe the economy is growing and will grow quite strongly.

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If, indeed, the Bank of Canada does lower interest rates, then that may cause the economy to grow even more strongly. In particular, while we are forecasting a lower number of housing starts, that is the area in which any major interest rate change would have the most immediate effect. The downside of that is that it could also have a very strong effect on prices, and it seems to me the market there is quite explosive in response to interest rate changes, as we saw during the early part of 1987.

I think that is probably all I would want to say about 1988, more or less in capsule view.

Mr. Chairman: Thank you, Dr. Purchase. I should perhaps formally introduce the people with you. We have Qaid Silk, assistant director, macroeconomic policy group, who is sitting, as we face you, to your left; and

Michal L. Gourley, assistant deputy minister, office of the budget and intergovernmental finance, on your right.

Mr. Neumann: What was the assumed exchange rate when you produced this document for 1988?

Dr. Purchase: We had a range between 75 and 77. We thought the dollar would trade between 75 and 77 cents. That is an average rate through the year; the dollar might go to 79 and come back down and so on.

Mr. Neumann: You mention that the gap between price increases in Canada and the United States has narrowed. Has that occurred since the production of this report?

Dr. Purchase: The gap was narrowing when we produced it, but since that time--

Mr. Neumann: So that was foreseen.

Dr. Purchase: It was partially foreseen. I think the US rate is now actually above our rate. I do not think we necessarily foresaw a US rate of inflation above the Canadian rate of inflation.

Mr. Neumann: What is your long-term projection for the world price of a barrel of oil?

Dr. Purchase: I think \$18 is a good price--it used to be, at any rate--\$18 in real terms going out. You can adjust it up by some rate of inflation, if you like, but the reason I like the \$18 is that it seemed to be a stable political price. In other words, it was a price a lot of people could live with, and in the absence of any major economic event--any major change in the economy or any major political event like a war and so forth--\$18 was something that was sustainable. It seemed to me anything significantly lower than that for a prolonged period of time was liable to provoke some kind of political response that might change things.

Mr. Neumann: To what extent are the significantly lower inflation rates in western economies today a result of the dramatic decline in the world price of oil?

Dr. Purchase: I think quite a bit of the reduction in inflation has come about from the lower oil prices, or the movement to a lower level of oil prices.

That is a very complicated question. I think the lower rates of inflation generally in the world in the 1980s were also very much related to changes in monetary policy. In turn, the collapse in commodity prices may have been related to the change in monetary policy that you saw in the 1980s.

Mr. Neumann: Getting back to where I started, if these projections were based on a 75- to 77-cent dollar--

Dr. Purchase: This sounds like it might be a trick question.

Mr. Neumann: --and we are now going to be perhaps in the 80- to 82-cent range, what does that do to your projections? Do you have a neat little model where you can plug in the change and give us new projections?

Dr. Purchase: Yes. We have done some simulations on the impact of exchange rate differences and, in part, it depends on how you got there, why the exchange rate changed in the first place.

Mr. Neumann: Is it real or is it political?

Dr. Purchase: We were not addressing specifically the political implications.

The exchange rates are held at a higher level because you have a larger interest differential between Canada and the United States. That has a much larger impact on the economy than if the exchange rate is somehow maintained by virtue of the central bank's buying the currency without an interest rate change or if the exchange rate changes simply because your export performance is so much stronger than before, or indeed if it is because you have a huge capital inflow which is fuelling an investment boom.

The problem is there are no simple answers in that respect. The answer to your question depends on why the exchange rate changed.

Mr. Neumann: Why do you think it changed from your very recent projection?

Dr. Purchase: I think the Canadian dollar looks like a better currency, on average, to be in than it did a few months ago mainly because of the weakness of the US dollar.

I think we should point out that although the Canadian dollar has appreciated by something like five per cent over the year vis-à-vis the US dollar, perhaps equally important is the dramatic depreciation of the Canadian dollar vis-à-vis European currencies and the Japanese yen. So in the US market, Canadian goods that compete with European or Japanese goods are in fact more competitive than before.

In other words, to isolate solely the Canada-US exchange rate is to miss an important story as well. I think our competitive position is not necessarily as adversely affected as it may appear on the face of it. Clearly, European markets are being opened to us, as well as possibly Japanese markets.

Obviously there are some Canadian goods that sell into Japan out of British Columbia, but the major advantage of the exchange depreciation in the Canadian dollar and the US dollar vis-à-vis the yen is going to be eventually on the import substitution side. I think Japanese products will get pushed out of the market, or if they do not get pushed out of the market, the Japanese companies will be encouraged to produce here, as you can already see in the automobile industry. So there will be a lot of import substitution, and I expect import substitution to be a more important response vis-à-vis Japan than exports.

Mr. Villeneuve: It is always interesting to listen to economists, because they can take a premise at the beginning and come up with very wide divergencies once the answer has occurred.

The Treasurer announced a very buoyant economy for Ontario in an economic statement before Christmas some time. I believe that probably came from your ministry as a report on the economic outlook for the province.

Dr. Purchase: Yes, I guess that was the tabling of this document.

Mr. Villeneuve: Amazingly, I read into this that free trade was to some degree a positive factor here. Could you expand on that a little bit please?

Dr. Purchase: First of all, with respect to 1988, free trade does not have any impact at all. If that deal is consummated, it will not begin until January 1989. We were not saying it had any impact on 1988.

With respect to the other things that were in the document, we suggested there was some work that we had done and work that we have seen from other sources on the reduction of tariffs, which were one element of the total package, and was quite a very comprehensive package--the Canada-US trade agreement--that in respect of the reduction of tariffs would have a marginally positive effect on the Canadian economy and the Ontario economy.

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We said in that document, and all the work I have seen since suggests, that this is an extremely small number, but it is positive. We also said there will be some sectors which are adversely affected. We indicated food processing and household appliances as two examples. We know some people will lose their jobs as a result of the reduction of tariffs; so there will be an adjustment problem that will have to be faced by some people, but on balance, there was a small positive effect.

The document also went on to point out in the analysis of the Canada-US free trade deal, first of all, that there was no single quantitative economic estimate that could be provided by anyone; and, second, that any analysis of that deal really should take into account the other elements of the deal. The Treasurer mentioned, I believe, the energy package as an example.

In addition, I think one of the major objectives of the government of Canada was to secure access to the United States. What that meant in practice, I think, was that there would have to be some exemptions for Canada from future protectionist legislation in the United States and, in addition, that existing US trade laws, in particular countervail laws, would in some way be modified or moderated so that Canadian exporters and foreign investors who were thinking about whether or not to locate in Canada or the United States would feel that the degree of political uncertainty that they face with respect to access in the US market had been reduced.

The analysis done by the lawyers who had worked on this issue for the government is that this, in fact, has not happened, that the changes in the Canada-US trade deal really do not amount to anything that could be called an increase in security of access or a diminishing uncertainty faced by potential exporters.

Secondly, in respect of the US omnibus trade legislation, as you know, if that legislation is passed before 1989, there is no exemption for Canada, and it is a fairly significant bill in that it in many ways significantly increases the capacity of the existing trade laws in the United States to damage imports into that country. We did not gain exemption for that. Beyond 1989, I believe, if it were passed then, it would merely require that Canada be specifically named in the legislation for it to apply to us. Many people believe that is not much of a deterrent.

What the document said was, "Yes, we acknowledge there are benefits to freer trade and the removal of tariff barriers, but the Canada-US trade agreement, of which we in no way attempted to estimate the economic impact, had significant disadvantages associated with it."

Mr. Mackenzie: I intend to go back to some extent to what you have just been discussing. With the increase from 75 cents, 76 cents or whatever the range was on the dollar to 79 cents, almost 80 cents now that we see, as far as you are concerned, the potential of free trade has had no impact on that increase at all?

Dr. Purchase: From my perspective I do not believe it has. I have read other people who say they do think there has been a positive impact, if you like, on the dollar. Some people see this as a positive rather than a negative impact, that the dollar is strengthened because of the free trade agreement. My own view is that I do think it is related to the free trade agreement per se. I think the strength of the Canadian dollar is more related to the fact that resource prices are strong and that there is no indication of a recession, so resource prices should continue to be strong. The Canadian dollar tends to be a commodity currency. The Canadian interest rates are high. In real terms, they are higher than the United States rates; US inflation has gone up relative to Canadian inflation. There is no question in my mind that this has had a positive effect on the dollar.

In addition, there is the general nervousness of the international community with respect to leaving money for any length of time in US dollars, so that you do try to find, if you can, other currencies you can park short-term assets in.

I do not believe there is any indication, so far as I know--and of course we do not have the numbers just yet--that there has been any sort of long-term capital inflow into Canada that would somehow be related to the free trade agreement. I do not think anyone has any evidence to that effect. My sense of the dollar right now is no, I do not think it is related to the free trade agreement, but--

Mr. Mackenzie: You are not being too definitive on that, though? You are not saying it might not be one of the factors?

Dr. Purchase: Unfortunately, you cannot be definitive. I wish you could. I wish someone knew exactly what was happening every step of the way, but I do not think any of us do. There are enough factors of significance, other than the free trade agreement, which would normally come into play here, that would account for the higher dollar that my own view is I discount free trade as having--

Mr. Mackenzie: Regardless of that, let me go back then because, maybe wrongly, the perception in terms of a study showing that free trade had marginal benefits was there in the presentation. Certainly, the information you gave us was that one of the predications was there would be a 3.5-cent drop in the value of the Canadian dollar over five years.

I was concerned at the time, when I asked you why we had not done one which showed that kind of increase, which I think would have been more accurate. You indicate that you have done some studies, but also that was the perception. As I say, I may be wrong but I do not know of a witness we subsequently talked to--certainly none of the major business interests--that

gave any credibility to that assumption. I just wonder why that kind of projection was used when we have had nobody else agree with you on it.

Dr. Purchase: First of all, I perhaps left a misimpression the last time I was here. It was not an assumption; we did not assume that the dollar was lower. That is what happened when we simulated the model with tariff reductions; the dollar declined in response to the change in the trade balance. We did not say, "Okay, let's either keep the exchange rate fixed or let it do anything." It just happened; it was a fallout of what we did. The experiment is replicable by anyone who wants to use the same econometric model that we did.

Mr. Mackenzie: If that is what it showed, though, it raises some questions in some of us, in our layman's minds, about the model when nobody else seems to agree with that assumption.

Dr. Purchase: If you look at other people's studies on this, it is the other assumptions they put in there that get exchange appreciations. For example, some of them will assume that because free trade will have such a positive effect on the economy, you will have a huge capital inflows and therefore the exchange rate will be boosted. At the same time, you get enormous growth in the economy, so the exchange rate becomes not material to the growth of the economy.

While other people may have come here and said they had different results or they did not understand why the exchange rate would depreciate, I think you have to look at the other things they did in the context of the way they simulated the model. As I say, we did not do anything except change the tariff schedule. We did not assume the debt would therefore lead foreign investors to have a renewed positive view of the Canadian economy and that therefore there would be a huge inflow of foreign capital which would appreciate the currency.

There are some models where I know people have done that, made that assumption. I think in the model of Data Resources of Canada Inc., and I probably should check my facts here, in their analysis they did have an appreciating currency, but in part that was because they saw that the agreement was positive with respect to flows of international capital and Canada would attract more than before. We did not put those assumptions in. In addition, we did not--as many other people have done, including the Department of Finance and virtually every other modeller of this event--assume anything with respect to productivity increases. Most of them will make an assumption that removal of these tariff barriers will have some autonomous effect on Canadian productivity levels so they just add that into the model and it comes out obviously positive. If you have assumed it, then it cannot come out negative.

We did not do that in our model. None the less, when all was said and done, we did find that removal of both US and Canadian tariffs would have a positive, although a very small impact.

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Mr. J. B. Nixon: Dr. Purchase, a lot of economists, financiers and politicians make the argument that the greatest threat to the continued vitality of the global trading market is the American deficit. Therefore, I assume as Ontario is a major trading region or province, it would have a

detrimental effect on Ontario's economy. I have never fully understood the logic of that proposition. I am wondering if you can explain the logic and comment on whether or not that is valid.

Dr. Purchase: I think today typically the argument in the United States is running something like this, that the US budget deficit when combined with a strong consumption growth in the United States resulted in much higher interest rates in the US, which in turn led to an appreciation of the US dollar in the early 1980s and that appreciation of the dollar allowed foreign firms, in particular Japanese, to make further inroads into the US market and hence the budget deficit in some way contributed significantly to the trade deficit.

The analysis is simply this. With respect to the US economy, when you add government spending to private sector spending, and the demographics are very positive with respect to consumption spending, not only in the United States but incidentally also here, the total was not being supplied out of domestic production, and a lot of it had to be imported. In particular, the only route into the United States for imported goods was through consumer goods, largely automobiles and so forth, because US defence production, which is one of the major areas for expansion of government spending, is not open to foreign competition. There was a huge expansion in consumer goods, exports into the United States, mostly by the Japanese, and a lot of that was really automobiles; something like \$40 billion last year was the US automobile deficit.

Incidentally, this import expansion has to be financed from abroad because domestic consumption is at such a high level and domestic savings rates are down. The government is borrowing and individuals are borrowing or saving very little and businesses were sort of netting out---they are positive savers, but they were using most of their capital for investment. The net result was many people believe the United States is living beyond its means and financing both its government expenditures plus its consumption expenditures by borrowing abroad. Of course, that is borne out if you look at their international accounts.

Therefore the argument is that the government should therefore reduce its deficit and presumably reduce borrowing from abroad.

Mr. J. B. Nixon: I am not sure whether you accept that general argument, whether the general principle sounds correct to you. How does it impact on Ontario if there is a reduction in the deficit which effectively--

Dr. Purchase: I think there is a chance that US economic policy could change with a new President. If there is a significant change in US economic policy, which is to say through either tax increases or significant expenditure reductions the budget deficit is reduced dramatically in the United States, I do not think there is any doubt that, to some degree, that would slow the US economy. Roughly, we are saying as a rule of thumb that for something like every point off the US growth, you can take about four tenths of the point off Ontario's growth rate. If the US changes its government fiscal policy dramatically to reduce the deficit, I think in the short run there will be a negative impact on the Ontario economy.

Mr. J. B. Nixon: One final question.

Mr. Chairman: Yes.

Mr. J. B. Nixon: You mentioned the demographics of our population and of the American population leading to high consumption. I think I understand what you mean. Some of it just reflects on the baby boom moving through, reaching an age of maturity where there is a disposable income and so on.

If you look past the 1988-89 period, in terms of demand for government services and government-supported services, say, we go to 1995, which is when I understand the baby boom has certainly moved into older maturity and the echo is now into high school or somewhere in there, has the ministry done any projections of demand for government services and government-supported services?

Dr. Purchase: We have taken pieces of that question and we have looked at particular parts of the thing related to demographics. Obviously, it depends on the nature of the program. The total level of government spending is not just purely driven by demographics, though. I think it would be wrong to do those projections solely on the basis of some demographic profile or age structure.

Mr. J. B. Nixon: What are the variables that you look to?

Dr. Purchase: We produce demographic forecasts and we make those forecasts available to the committee or to anyone else. We do take a look at the implications of demography for government spending, but I cannot just offhand answer your question.

Mr. J. B. Nixon: Are there any key variables other than demographics that you would look to in doing that type of forecast?

Dr. Purchase: The word "demographics" itself can cover a lot of different things. It may mean changed behaviour patterns with respect to family formations. Obviously, the age structure is there. Also, there are questions of net interprovincial migration, net international migration and the share that Ontario gets vis-à-vis.

These numbers have got to be quite large in the last few years, so that it becomes extremely difficult for us to say; I should not say "extremely." What happens is that changes in the assumptions with respect to interprovincial or international migration can have a large impact.

In the last couple of years, we have not been extremely good at forecasting interprovincial and international migration. The share that Ontario would get has been a very significant number in the last two years, much higher than we had anticipated.

Mr. J. B. Nixon: I take it some of that in the future will relate to the unpredictability of the federal immigration policy.

Dr. Purchase: Absolutely. There are policy issues that are involved in these forecasts. What we usually have to do is assume no policy change because to do otherwise would be to presume that we know what the government will do. You have to begin to have wide ranges in your projections.

In addition, the relative performance of the economy is important here. In other words, it is not just a matter of predicting accurately how well Ontario will do it is also a matter of predicting accurately how well each of the other provincial economies will do, plus some of the more important international economies with respect to immigration.

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Mr. J. B. Nixon: It is a tough job.

Dr. Purchase: Yes; it becomes a pretty difficult job, but I think the numbers have been pretty good. Again, migration is a very difficult thing to get a handle on. Interprovincial migration has been a very remarkably flexible phenomenon, in my view. People move readily in this country, or do not move, in response to changes in economic activity.

Mr. J. B. Nixon: One final question: How does one identify migration? No one files information with the government when he arrives in Ontario. There is no change of social insurance number or anything.

Dr. Purchase: I believe we do it via drivers' licences and family allowances. You are right in that the timeliness of those kinds of things and also the reliability are somewhat less than would be desired if your only concern was with forecasting demography, but there are other issues here as well.

Ms. Poole: Dr. Purchase, I am referring to page 17 of the Economic Outlook which deals with the unemployment rate. The graph here shows quite a steady improvement in the unemployment rate in the 1980s, but one thing that really surprised me was that it states here that the number of long-term unemployed is still significantly higher than at the beginning of the decade. Then there is a chart on page 18 relating to the long-term unemployed.

I suppose it might have something to do with the changing technology and the fact that if workers are retrained it would take longer than a six-month period, but is there any other explanation for this rather strange change over the 1980s?

Dr. Purchase: There probably are a number of hypotheses, but frankly, I am not sure what the answer is. I do not know why there are more long-term unemployed. I am not sure what may account for it.

Ms. Poole: It seems to have peaked rather dramatically in 1983 and 1984, but the unemployment is still quite a bit higher than 1980 and we do not have any information as to what is happening.

Dr. Purchase: I could probably take that under advisement. I know there is some member of my staff this very minute saying, "I know, I know."

Ms. Poole: And dying to run up and correct you.

Dr. Purchase: That is right. I think we can answer that question for you. We can certainly give you some more opinions than I have on it at the present time.

Ms. Poole: I would appreciate that, because I would like to find out if it does impact on our skills training programs or anything else and whether we are improving in that regard.

Mr. Mackenzie: Supplementary to that, we might find also that the avalanche of plant closures with older workers we had at that time, many of whom have not been replaced since, would be one of the reasons we have that longer term. I know I still have older employees at Consolidated-Bathurst and a number of the plants who have been out for a number of years.

Mr. Chairman: Perhaps you could help us with that.

Dr. Purchase: Yes, as I recall, as the age of the unemployed worker increases, then the duration of his unemployment also increases, which is a chart I believe we put in the economic review that we did for the one previous to this. I think part of that may be explained by that.

Usually it takes a complete closure to affect the oldest part of the labour force, because in partial closures, usually the youngest people get laid off first. In a complete closure situation, you finally start to get to people who are, let us say, 45 and over and 55 and over.

At that point, if you do become unemployed and you are over 50, let us say, the duration of unemployment goes way up. You are likely to be unemployed much longer than if you were a young person.

Mr. Ferraro: Dr. Purchase, in the prebudget review note from the Treasurer today, I am a little confused. On page 3, the Treasurer said, "the federal minister has arranged for a one-time speedup in PIT payments." Is that the provincial income tax?

Dr. Purchase: I think Mr. Gourley could probably answer that.

Mr. Gourley: That is correct.

Mr. Ferraro: OK. Now, if I understand this correctly, what we are saying here is that with tax reform and with the decrease in the degree or rate of increase over our established programs financing payments from the federal government, we are \$810 million short this year. Is that right?

Mr. Gourley: That is correct: \$310 million on tax reform per se, but \$991 million on the previous federal government actions is what we are short.

Mr. Ferraro: What we are saying is that, basically, we are a billion bucks short as a result of federal actions.

Mr. Gourley: Right.

Mr. Ferraro: Now my question to you is, this speedup in the PIT payment does not negate the fact that we are still \$1 billion short; it just means that we get it a little sooner, does it not?

Mr. Gourley: What it means is that in the fiscal year we are looking forward to we will have more cash on hand, but in terms of decision-making, introducing new policies and paying for existing programs, that is just a cash-flow adjustment. It just means that Ontario is receiving cash sooner than it otherwise would have, but you cannot--

Mr. Ferraro: But it really does not affect the deficit.

Mr. Gourley: The following year that speedup will show up as a reduction in our revenues. We will get that only once, and then the following

year we will see an apparent \$200-million drop. I may be at this committee explaining why there is a \$200-million drop, and I will say that that cash-flow speedup was a one-time event. We have received the money; it is in the bank, as it were, and future payments are based on that same timing. Therefore, there is a dropoff.

We have had a similar experience in this fiscal year with respect to about \$500 million or so, the same category of revenues, personal income tax revenues. We have received those in a cash-flow speedup sense, and going into the next year, those numbers will not be there. There will be no continuing growth because our payment streams have been changed once and for all. We are now receiving it earlier than we had in the past, but it has nothing to do with tax reform per se, the one that the federal government has alluded to in its discussion. It has to do with the timing of payments to Ontario, when the money is transferred.

Mr. Ferraro: Let me rephrase the question, because I know it is Monday and I do not wake up until Wednesday. Are you telling me that we are \$1 billion short and we are going to get whatever the hell "speedup" means--can I classify that as a subsidy, if you will, from the federal government to offset that \$1 billion, or is it something we would normally get even if we did not have the \$1 billion of reduction?

Mr. Gourley: The federal government has linked those two, tax reform and that speedup, saying that because the provinces would otherwise be less well off, we are speeding up payments to them, but it is merely a cash flow.

Mr. Ferraro: What does "speedup" mean? We just get it sooner?

Mr. Gourley: "Speedup" means that we were expecting the money the following year and suddenly we are getting it one year earlier than we otherwise would be. If you were looking at it in terms of your salary track--

Mr. Ferraro: It is creative accounting for political purposes. It is like giving you the income tax rebate starting in July, double the rate until December, and then knocking the hell out of you next January 1989, which is what the feds are doing, is it not?

Mr. Harris: Just by way of supplementary, is that what it is, or are you going to keep getting it a year early all the way along?

Mr. Gourley: It is a one-time increase in the timing, a speeding up, a moving forward.

Mr. Harris: But they are not going back to the old system next year. You will get it early next year for the year ahead.

Mr. Ferraro: But in a lesser amount.

Mr. Gourley: But in terms of the year-over-year growth, you see it happen once, and then the following year you will see what appears to be a \$200-million reduction in revenues because that growth, if you like, is no longer there; it is built into the base.

Mr. Harris: Because you are not getting more growth again year after year, you are--

Mr. Gourley: Right. It is not that we are angry with that. It is

just that in terms of building programs on it, you can do it only once, you can spend it only once, as it were. You got it earlier once and you can spend it in that year.

Mr. Harris: Just so I understand, is that like the way you advanced the money to the school boards so it showed on the budget? We went through this in the estimates about how much money school boards were going to be getting. Is that exactly the same type of thing? You have speeded up how you flowed money to school boards in that year.

Mr. Gourley: We have had several discussions with the federal government on when it transfers to Ontario the moneys it collects on our behalf under the personal income tax agreement. We have demonstrated to it several times that we believe we are getting it later than we should. In other words, the federal government has a benefit of having those moneys on hand.

In the case of the school boards, they have long pointed out to us that in their fiscal year, which begins January 1, they spend roughly one quarter of their budget in the first three months. In the past, they have not received a quarter of the funding necessary, so there has been a shortfall.

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Mr. Harris: But it is a similar type of accounting. You advanced the money to them sooner, they were happy to have it and said: "Thank you very much. We appreciate getting it on time."

Mr. Ferraro: It sounds like the same thing to me.

Mr. Harris: Is that not exactly what the federal government is doing now?

Mr. Gourley: To the extent that there is a difference, I would say the school boards have spent 25 per cent of the money, and we have indicated, as I say, to the federal government on many occasions that we would appreciate receiving the money sooner. They said, "Fine, you will receive the money sooner in this particular instance." It has nothing to do with tax reform. It has to do with the timing of the payments.

Mr. Harris: I agree, but it is not a negative. It is something you wanted and they gave it to you.

Mr. Gourley: Fine, but it has nothing to do with tax reforms.

Mr. Harris: Fine. I agree.

Mr. Chairman: Hold on. Mr. Ferraro has the floor, and that was a supplementary.

Mr. Ferraro: Mr. Nixon, ask your supplementary and then I will get back to my questions.

Mr. J. B. Nixon: All I want to clarify about the speedup is, does the advancing of the payment move the payment into an earlier fiscal period?

Mr. Gourley: Yes.

Mr. J. B. Nixon: From the province's point of view?

Mr. Gourley: Right.

Mr. J. B. Nixon: The effect is that in this year there will be a larger amount transferred than would otherwise appear to be transferred under the old rules.

Mr. Gourley: Right. It is important, just to keep that distinction, that it is a cash flow and that it has no indication or relationship to tax reform per se. In the federal government's presentations, as I said, there is this extra speedup, but there are other activities going on that one could have mentioned and they were not mentioned.

Mr. J. B. Nixon: So there is no real benefit?

Mr. Gourley: In terms of Ontario's cash management, we will have money on hand that we would not otherwise have had. We will be able to earn interest on that. There is a small benefit to receiving any money we are due earlier.

In the case of this particular change, I would point out that the federal government itself will not be receiving the speedup of payments, because eventually this all translates into individuals' withholdings being transferred to the federal government sooner. This is an initiative in which the federal government has said: "We want companies to transfer their income tax withholdings to us sooner. Rather than waiting a month, move it up two weeks, down to a week." This is, if you like, the second level. They have speeded up the transfers from corporations, large corporations generally, to the federal government, saying: "We want that money sooner. Since you have it available, we would like to have it sooner."

In this case, the timing of that change with respect to corporations is such that the federal government will not actually implement that until the following fiscal year. They are providing that money to us sooner than they would have otherwise, but it has to do with transfers or timing of payments related to personal income tax withholdings. It does not have to do with rate changes or anything else that was included in tax reform.

Mr. J. B. Nixon: It is almost as if someone has accelerated the merry-go-round for a period and then it will go back to the normal speed of things.

Mr. Gourley: That is right. They will make the change once and for all and say, "From now on, there will be only a week's delay, say, between the time these withholdings are generated and the time they are transferred to the federal government." We, as partners in the personal income tax agreement, said to the federal government, "And we would like our share." In this particular instance, they said: "By the way, your timing is going to change even further. We are going to give you the money one year in advance of when we actually collect it."

At the risk of prolonging the discussion and confusing it further, I would simply point out that there is an ongoing discussion with the federal government on this very question which involves substantially greater sums and roughly a one-month delay, which we feel, as Ontario, we are entitled to. Those discussions are ongoing with the federal government.

Mr. Ferraro: The net effect then, if I can get back to this question, is that we are really doing some creative accounting. By "we," I

mean the federal and provincial governments, to some degree. We are not, in essence, detracting from the aggravated deficit that we are incurring of \$1.3 billion. We are prolonging it to a greater degree to next year's budgetary forecast. Is that not true? Or have they stolen our excess revenues, if we have any?

Mr. Gourley: No, I do not think the federal government has stolen anything.

Mr. Ferraro: Say borrowed.

Mr. Gourley: I would also simply point out that both levels of government are interested in ensuring that they receive their moneys in a timely fashion. The federal government has said, "We want to change the way we are going to collect personal income tax revenues in Canada," and it has done so. Ontario has said it would like to have its share of those revenues, which it collects in advance. In this case, the federal government said, "By the way, we are giving it to you fully one year in advance of when we in fact will receive it."

It is perfectly acceptable accounting, if you like. It is part of a continuing effort on the part of the feds.

Mr. Ferraro: OK, I was not trying to imply that there was anything illegal. I want to get back to the \$35-billion deficit that we have.

Mr. Gourley: Theirs is \$29 billion and ours is \$1.93 billion.

Mr. Ferraro: I am talking about the accumulated, total deficit in Ontario. It is \$35.1 billion, is it not?

Mr. Gourley: It is \$37 billion or so, right.

Mr. Ferraro: For the year ending 1987, are we not looking at another \$1-billion operating deficit?

Mr. Gourley: Right. In this fiscal year, 1987-88, we will borrow an additional \$1.93 billion.

Mr. Ferraro: Does that automatically, or just a portion thereof, go on to the \$35 billion?

Mr. Gourley: It automatically goes on. Additional money we have to borrow.

Mr. Ferraro: So we are at \$36 billion.

Mr. Gourley: Right, and each year we have a deficit, we have to borrow more.

Mr. Ferraro: Fair ball. That is what I thought. I did not know whether we amortized that over the next year's operating statement to eliminate that deficit.

Mr. Gourley: No. We have to recognize that increase in the level of debt. Where it shows up most dramatically is in the form of public debt interest payments, because once you borrow those moneys, you must service that debt, as it were; service the interest payments, at any rate, on that debt.

Earlier, the Treasurer pointed out that Ontario's public debt interest, translated in terms of cents per dollar of budgetary revenue, is roughly 12 cents of every budgetary dollar collected. That goes to pay the public debt interest, so it does not reduce the debt; it simply pays for the interest on that debt. The equivalent number at the federal government level is in excess of 30 cents of every dollar it collects, which goes to pay for public debt interest costs.

Mr. Ferraro: Let me ask a dumb question while we are on that. If it is all interest, why do we not amortize the principal to some degree, like a mortgage?

Mr. Gourley: We are constantly rolling over the debt, and if we could get to the point where we had a surplus, if you like, we could start reducing the level.

Mr. Ferraro: Again, I think the question has some weight. If indeed in your own forecast you show that we are going to have real growth loss compared to inflation, it does not look like we are going to be in that position until 1990 or 1991, so I think my question has some added impetus. Why do we not amortize the principal to some degree?

Mr. Gourley: Because we are actually increasing the debt each year. Therefore, all we are doing is providing the interest payments on that debt; we are not reducing the debt to any extent.

Mr. Ferraro: I agree. It is like a provincial mortgage.

Mr. Gourley: We could, if you like, spread it out over time, but since we are not reducing it--

Mr. Ferraro: I guess really what I am getting at is--and I do not know whether Dr. Purchase wants to answer this or not--nobody likes a mortgage. At every budget, whether provincial, municipal or federal, people stand up and say, "Look, we are mortgaging our future," and all the rest of it. We are going to have a \$36-billion deficit at the end of this fiscal year. Ideally, we would like to have dough in the bank, but we do not.

At what point do you, Dr. Purchase, as the chief economist for the province of Ontario, say: "Wait a minute, Treasurer. Wait a minute, folks. The equity relationship is a little too sparse. We have to do something about knocking the deficit down"?

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Dr. Purchase: That is a very difficult question to answer.

Mr. Ferraro: I agree, but a very important one. Otherwise, I have to listen to all these guys saying, "Well, you didn't knock anything off the deficit." The opposition parties will say, "Knock something off the deficit, but we want more services." So somebody should talk straight talk to the people of Ontario.

Dr. Purchase: The Treasurer has talked about pay-as-you-go--

Mr. Ferraro: And the feds are making it more difficult.

Dr. Purchase: --except that we would borrow for capital purposes. I think that is widely accepted as a legitimate thing to do. Of course, if you do borrow for capital, that means as long as you have capital expenditures every year that you will be accumulating some new debt each year. In addition to those concerns there are the short-run economic concerns about how the economy is performing in any given period. I think that is acknowledged, generally speaking, but if the economy is going into recession, for one thing, your deficit runs up automatically, mainly because tax revenues drop off.

Mr. Ferraro: I suspect I am not going to get a direct answer and I appreciate the--

Dr. Purchase: I understand your question, Mr. Ferraro, and I think it would be satisfying for everyone, really, to have one definitive expert answer that was: "Don't worry. As long as you do this, everything will be fine." But the truth is that there are many things that you have to take into consideration when you are establishing a fiscal policy. In fact, the Treasurer, in doing each budget in each and every year, has to look at all those things.

Mr. Ferraro: I appreciate the total ramifications. Let me ask one final question and I think Mr. Nixon has a supplementary. Please do not think I am trying to be reactionary here. I understand, to some degree, the need for a deficit to supply services and so forth.

My question, Dr. Purchase, is this: As an economist, bearing in mind increased inflation and decreased real growth and all the other pressures that we know, demographic pressures, reduced transfer payments and so forth and so on, increased need for services and demand, if you are going to try to at least address the deficit or the degree or rate of deficit from an operating standpoint on a yearly basis, how would you recommend you do that? For example, are you an advocate of program reduction? Are you an advocate of increased taxation which can then subsequently backfire from the consumer's standpoint, or any particular philosophical point of view?

Dr. Purchase: Most of those questions, I would have to say, speak to issues of government policy, and I probably should stay out of them.

Mr. Ferraro: Well, I tried.

Dr. Purchase: Again, I would say that there is perhaps a long list of criteria for assessment that you could have, I think, to look at a deficit, to ask yourself if this deficit is appropriate, given what we know about the economy now and in the future and given our preferences for borrowing for capital which will add to future income?

I think these things typically are always considered by a Treasurer, certainly the officials around the table. All of these things are brought up. All of the indicators of our fiscal health and our fiscal position, the position of the economy, what we are borrowing for, the rate of growth of expenditure, the likely rates of growth of income and so forth, virtually all of them hit the table.

Again, I cannot say there is any way that you can combine them all in some simple index and say: "There is the answer. You don't have to think about it, because we already have the answer for you." I do not think there is such a thing.

Mr. Chairman: Mr. Nixon, it is a genuine supplementary to this question?

Mr. J. B. Nixon: I think it might help elaborate or illuminate Mr. Ferraro's concern. It is my understanding there are significant differences between accounting for a public corporation of government as opposed to a private corporation or publicly traded corporation. For instance, acquisitions are expensed in the first year.

Mr. Gourley: You expense them in the year in which they are incurred. That is correct. And if you like, all the capital is written off in the year in which you create the asset.

Mr. J. B. Nixon: So that a deficit for a government has to be viewed in quite a different context than the manner in which you view a deficit for a corporation.

Mr. Gourley: Looking at capital expenditures that way, that is correct. When you are looking at the operating position, if you like, those programs which are going to be ongoing for ever and a day, those have to be funded through revenues which will hopefully continue. Except for economic downturns, which Dr. Purchase referred to earlier, those instances where the economy requires assistance and so on, in fact, where our programs of both levels of governments provide automatic stabilizers or automatic assistance to individuals and others who need assistance during that period of time, generally one has to ensure that the operating revenues are there to pay for the ongoing programs of the government.

In that sense, I think there is perhaps more similarity on the operating side than there is on the capital side. Certainly, our treatment of capital is consistent with government practice across Canada.

Our operating position at the moment is in a deficit of \$200 million or so. To some extent, one could argue there is a borrowing to fund that operation, but as long as it is within manageable limits--that in a sense is what I was getting to earlier when I was talking about public debt interest. As long as public debt, as a proportion of total budgetary revenues, is maintained within a manageable range, it is possible to continue and look forward to the future to a reasonably stable environment.

Where it gets to a significant proportion, and I would argue that 30 cents out of every budgetary revenue dollar is a significant portion, one has a problem. It is certainly true that the federal government is borrowing to pay for its operating programs.

Mr. J. B. Nixon: Not to be too blunt, but is it not the case that things like our schools and our sewers and our roads are just not recorded as capital assets on the books of the Ontario government?

Mr. Gourley: That is correct. The schools would be recorded on the books of the school boards per se, but--

Mr. J. B. Nixon: School boards, yes.

Mr. Gourley: --our contributions--

Mr. J. B. Nixon: Even though we may have financed up to 60 per cent.

Mr. Gourley: We assisted with them, that is correct. But there are many--

Mr. Ferraro: Is not the real truth that governments can operate at deficits ad infinitum but corporations cannot?

Mr. Gourley: I am not sure about the ad infinitum.

Mr. Haggerty: Can I just--

Mr. Chairman: Let us put this thing into order.

Interjection: Are you on the same thing?

Mr. Haggerty: I am on the same thing. I have been waiting for quite a while. By the time I get to it, everything will be exhausted.

Mr. Chairman: Yes, Mr. Haggerty has been waiting a while. Mr. Haggerty?

Mr. Haggerty: I just wanted to follow the dialogue that has been going on. The question has been asked by some of my colleagues, but I think the Treasurer has pretty well put it on page 3. He has not signed the document, but he says: "I recognize that Ottawa is encountering a difficult task in reducing its deficit. However, federal actions that reduce payments to provinces"--he is talking about established programs financing funding--"shifting the deficit burden from one level of government to another, impair our fiscal position and economic prospects. These actions don't reduce the overall level of deficits and debt carried by Canadians for their federal and provincial governments."

That is a pretty serious statement to make, and this has been going on for some 20 years. The last time Ontario had a surplus was back in 1970 or 1971. That was before Premier Davis took the reins in Ontario.

You talk about pay-as-you-go policy. Perhaps if the government of the day or the past had applied the same principle that has been applied to many municipal governments, and I happen to be from that basic government base, back to the local taxpayers, you might say--when you run on a pay-as-you-go basis, you stick to the rules that apply. Where municipalities have applied that, they have run a more efficient government with no huge deficit. You may get the deficit by the insulation under local improvements, such as water lines or sewers, or something like that or capital projects. When you look at many of the municipalities, they have done a great job in this particular area and they are the ones that are hurt most by it when you get into this heavy deficit. What is your deficit? Just paying off the deficit alone is \$3.8 billion. To carry that debt load is pretty hefty. If you include Ontario Hydro in that, you are probably looking at a deficit of \$70 billion, plus the interest on that. There is just no win.

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Mr. Chairman: That is something we are going to have to grapple with.

Mr. Haggerty: No, I am going to look at the experts over here. I am looking at the doctor. What is the best thing for this cancerous situation we are facing in the province of Ontario, even federally? What is the medicine that is required? Let us talk about the nuts and bolts of this thing. What do

you recommend to reduce the deficit? I know there are free riders here in Ontario that pay no taxes. We had witnesses here last year coming before the committee, and the financial institutions had not paid any income tax or corporation taxes since 1972.

Mr. Chairman: But we did not recommend that anything be done, Mr. Haggerty.

Mr. Haggerty: No, but I am saying these fellows had better take a look at this thing.

Mr. Chairman: You are asking Dr. Purchase to set out options for us to reduce the deficit.

Mr. Haggerty: Surely they must have some computer model there that you are going to say--when do you expect to start reducing the deficit then? Every year we see increases in taxation that--

Mr. Harris: Even the politicians will not tell you what they are are going to cut.

Mr. Haggerty: I know that. I am telling you that, Mike.

How many years would you take to retire this debt we are talking about? Surely you could run it through a computer model somewhere.

Dr. Purchase: I do not have the answer. Mike, do you have the answer?

Mr. Gourley: I think that is a judgment call that is made in context each year.

Mr. Haggerty: Who is the speechwriter of that paragraph?

Mr. Gourley: I might have to take some responsibility for some of the words.

Mr. Haggerty: What you are telling us is there is no hope at all.

Mr. Gourley: No. I think that as long as you keep the situation in a manageable framework, then you can deal with it. But if somehow or other you lose control of the budget process, then you have a problem you have to deal with. It is quite different from one in which you look at a small problem each year and say, "Well, we can manage that by addressing a particular problem in a particular year."

I think if you were to try to say, "We have a total debt of over \$30 billion and we are going to try to solve that over the next 10 years," you would be dramatically changing the types of budgets that the province would bring down. We are generally involved in making a budget on a year-to-year basis based on the economic circumstance and the needs of the time.

Mr. Haggerty: So you are into a recession. You said you were going into further debt. Like you said, there is no end to this, is there? So, for the next generation that comes down, in the year 2000, what will our debt be then? In 10 years, it will probably be \$70 billion at the rate we are going.

Mr. Gourley: It could have increased by that time, but in the meantime--

Mr. Haggerty: You are not producing.

Mr. Gourley: --there would have been a lot of capital projects, a lot of provincially funded capital projects created, ranging from new roads to new hospitals to new schools, which go to support the economic strength of the province. As the province, you may say that is a good thing too.

Mr. Haggerty: Yes, but again you are hitting the average working man, you might say, working-class people, the same as the federal government did in the one-cent-per-litre tax on gasoline.

Mr. Gourley: When you look at the services and programs that are provided by the province, you see that the same individuals or very much the same individuals who, if you like, are asked to pay for those services benefit from those services. So in our largest program expenditure, 32 cents out of every dollar goes to the Ministry of Health. When you look at the greatest source of income in Ontario, you can see that 29 cents out of every dollar we take in comes from the personal income tax.

Mr. Haggerty: Yes, but there are--

Mr. Gourley: Those are very much--

Mr. Haggerty: As we enter into this free trade debate, and there are closer ties to the American side with its huge deficit, usually there are state governments over there, and you are talking about user fees over there on the American side. If you are travelling the highways over there, there is a user fee, but about 65 per cent of your revenue now for roads is generated through some road tax or vehicle tax. Thirty-five per cent, I believe, comes out of consolidated revenue.

We do not have enough dollars now even to maintain our roads out there without some--maybe you should be looking at the area and come up with some solution or recommendation. Take a look at user fees and finance the road, as some of my colleagues said you do it, by debenturing. That is how they paid for the roads over there. Some states have good ones and others you might say are just passable. It is a different way to look at it and saying really the province is not in debt that much if you go that approach of financing some of these capital projects.

Mr. Chairman: Again, Mr. Haggerty, that is something perhaps we can look at, although we might ask the Treasury to give us a prognosis as to the kind of money we could make if we had user fees on roads.

Mr. Haggerty: I was fishing, that maybe there is some model where they could come forward and say, "Yes, we are looking at this," but apparently they have not.

Mr. Morin-Strom: I am amazed at how much doom and gloom we have from our two colleagues from the Liberal Party, Mr. Ferraro and Mr. Haggerty, in terms of the financial position of the province. In fact, my reading of the data from your Economic Outlook and Fiscal Review is that our debt position is not that bad in comparison to the historical figures. If you look at what has happened--say, taking the total, not just an annual deficit but the total funded debt; you have the percentages here--the total funded debt as a percentage of our gross domestic product here in the province, going back 10 years to 1978-79, was 15.2 per cent.

Mr. Chairman: We are looking on pages 94 and 95.

Mr. Morin-Strom: Yes, it was 15.2 per cent. Now the forecast estimated interim for 1987-88, the current year we are just completing now, is 13.1 per cent. In fact, as a percentage of gross domestic product, the total debt of the province--in this case excluding Hydro, another can of worms, which I will leave out of the calculation at this point anyway--our percentage of debt to GDP has gone down two percentage points. It would appear from that figure that our situation has not been getting worse in a relative sense over the last 10 years.

Mr. Gourley: In a relative sense, that is definite progress, but it does not hide the fact that the debt is increasing each year.

Mr. Morin-Strom: In total dollars it is. But another fact is if you want to take it relative to per capita income. I guess an easier one to look at in terms of percentages is the 1979-80 one. Per capita income was almost exactly \$10,000 here in the province and the funded debt per capita was \$1,788, which is nearly 18 per cent of that. The latest year we have income per capita of \$20,072, and the funded debt per capita is \$3,131, which would be between 15 per cent and 16 per cent. I am looking at funded debt per capita compared to the per capita income. Those two lines, one over the other, would indicate that the funded debt per person used to be about 18 per cent of a year's wages nine years ago, and today it is about 15.5 per cent. That has gone down as well, relative to income levels.

Mr. Gourley: I think all of these are measures of performance and fiscal wellbeing, if you like, and the decision one has to make in setting the budget is, do you want it to continue to go down; do you want to continue to maintain that trend and fund the debt as a percentage of GDP; what would happen in the event of a downturn in the economy; are we providing the level of services that is adequate to meet the needs of Ontarians? You have to look at all of these things. These measures here happen to say that there has been an improvement.

Mr. Morin-Strom: But hardly a case for doom and gloom, that we are in the midst of fiscal collapse or out-of-control deficits here in Ontario.

Mr. Ferraro: On a point of order, Mr. Chairman: With respect to my friend, if he is going to accuse me of being a doom-and-gloomer, I think he should take it in the context of what I was saying. What I said was--and I am far from doom and gloom--I was taking the deficit in consideration through the projected rate of growth of the province by 1991. I agree we are in great shape if you want to look at it from your comparison, and I appreciate the support you are giving my party and the Treasurer, but if you take it in conjunction with the projected growth and inflation rate for 1991, I suggest you that it is not so rosy, notwithstanding that the basic--

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Mr. Morin-Strom: Oh, I see.

Mr. Chairman: But if you look at 1985 and projected growth as well.

Mr. Ferraro: That is right, absolutely. It is much, much better.

Mr. Chairman: Which I am sure Mr. Morin-Strom is going to agree with.

Mr. Morin-Strom: No. I see the 1985 figure is 14.4 per cent. We are below the figures back in 1978-79; so it seems to me that the debt as a percentage had been down under the Conservatives previously as well. I do not see anything particularly disturbing in terms of the total debt level on the provincial scene. I think there is a lot better case on the federal scene that things have gone out of whack.

Actually, I wanted to get back to exchange rates and some comments Dr. Purchase made to the committee the last time he appeared before us in January. I am going to read the transcript from Hansard. At that time, we were talking about the studies that had been done by the province in terms of the impact of the free trade agreement. I read from Dr. Purchase: "In our analysis, what happened is that the dollar depreciated in response to the tariff cuts. If it did not depreciate, then we probably would not have got the results we got. In a sense, we could have made it do anything we wanted it to."

Your analysis apparently showed the dollar depreciating with the agreement. Almost all the testimony we have had since that point--the expectations from economists or people in various industries--is that the dollar would appreciate, and in terms of actual fact it has appreciated in the last few months. Whether it was because of that or some other reason, we do not know.

What would be the logical reason that your model or any economic model would show the dollar going down in response to the free trade agreement?

Mr. Chairman: You are aware that Mr. Mackenzie has explored this.

Mr. Morin-Strom: Yes. I do not think he has--

Mr. Mackenzie: I think it may have been done a little more effectively.

Mr. Chairman: You will leave that to--

Mr. Morin Strom: I want to know in your model in particular.

Dr. Purchase: I should clarify. In my previous testimony, you kept referring to an assumption in the model, that we made an assumption about the exchange rate. We did not make an assumption about the exchange rate. That was what happened when we simulated the model. It was endogenous to the model. We did not say, "Let the exchange rate fall by three and a half cents" or anything. We did not change the exchange rate.

Mr. Morin-Strom: Well, part of your testimony contradicts that.

Dr. Purchase: With all due respect, I am correcting the misimpression that I left from the testimony. I realize that you used the term "assumption" several times and I did not correct it when I should have.

The model did show that result because the trade balance deteriorates slightly and the exchange rate adjusts in response to the deterioration in the trade balance in the model. The exchange rate acts, in effect, as sort of a moderating device in that particular model.

As I have said, we are not looking at everything we have done ourselves as being the definitive or the only view on this subject. We have looked at other people's work, done by quite respectable economists around the country

on this subject, and done our own work as well. The net result is that we get modestly positive economic impacts.

When I said we could have made it do what we wanted, you can fool around with--you can make the exchange rate a fixed exchange rate if you want to. You can argue that the Bank of Canada will do something that causes the exchange rate to remain unchanged, or you could argue that the impact on the animal spirits of businesses is so great that there will be a significant capital inflow from abroad into Canada and the exchange rate will appreciate. But you will also find, incidentally, that under those circumstances you are probably getting quite large gains from the agreement, for people who do make those kinds of assumptions.

We did not do that. I am here simply to report that we did not do that. We changed the tariffs in the model. We did not add in any productivity gains that were exogenously determined. We did not exogenously change the exchange rate. We let the model speak for itself, and when it did it told us, in effect, that there were some modest positive gains.

We went on, as you know, to point out that there are a good many other elements of this agreement that are a great deal more important in terms of the analysis of the agreement than the changes in tariff rates. Tariff rates can be changed under the General Agreement on Tariffs and Trade or any other opportunity that we may get, including unilaterally changing the tariffs if we wanted to.

I am afraid I miss this questioning about exchange rates. I realize that the exchange rate is an important device to facilitate adjustment; but it is precisely that, and if you focus too much on whether one level of the exchange rate is good for the economy versus another, then I think you will be seriously missing an important point about exchange rates.

Mr. Silk: Maybe I can add to that. Essentially, in trying to understand the impact of something like a tariff reduction, you are making a variety of assumptions about what will happen to policy moves. For example, what do you think will happen to the fiscal position of the federal government as it loses revenues from tariffs? Will it offset them by taxes somewhere else, or will it allow essentially the federal deficit to rise by that amount? What do you think will happen to productivity in the manufacturing sector in the Canadian economy? What do you think will happen to the Bank of Canada's monetary policy?

On all of those we basically made, if you like, no policy change assumptions, in a sense, because to our way of thinking, and to some other people as well, there are a variety of alternatives before us as to what the government might do. For example, on the fiscal position we basically said there would be no fiscal stimulus. If you were to add fiscal stimulus, as it appears the Department of Finance has done in its work, then there is no question about it. If you reduce taxes and perhaps reduce indirect taxes in this case, prices in Canada will fall; and if they do fall sufficiently, that is a stimulus to the economy, and maybe at that point, inflation being lower in Canada, the exchange rate might appreciate.

So in a sense, I guess my point is that in doing this kind of analysis one is trying to understand and look at a variety of moves before the government. Depending on the assumptions one makes, one can come up with different results. We did not assume that the exchange rate would depreciate; that was just an outcome of our results. Other people might make different assumptions and might end up with an exchange rate appreciation.

Mr. Morin-Strom: The point I was trying to get from you was why the exchange rate went down. I think you mentioned one thing which was related to it, which I presume is the real reason. You said that the trade balance effectively moved to the advantage of the Americans. Our surplus reduced. There may have been increases in both exports and imports; I do not know.

Dr. Purchase: Exports increase as well as imports, but domestic consumption expands as well. There are many things going on in the model at the same time, and the net result of all of those things happening is a marginally positive impact on the Ontario economy.

Mr. Morin-Strom: What happened to our trade balance?

Dr. Purchase: The trade balance deteriorates marginally, but there are more exports as well as more imports, and part of that is the fact that domestic demand increases.

Mr. Morin-Strom: Is there a net increase in jobs? Do more jobs come from the additional export and then we lose from the additional imports?

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Dr. Purchase: Yes, there is a net increase in jobs.

Mr. Morin-Strom: Even though the trade balance in total has declined?

Dr. Purchase: Yes.

Mr. Morin-Strom: Can you provide us with some more detailed figures on your study?

Dr. Purchase: Yes. Would you like the simulation table, the output, the computer printout?

Mr. Morin-Strom: If it is understandable.

Dr. Purchase: That is the form which it is in.

Mr. Villeneuve: Without dwelling on what was being discussed a while ago regarding the deficit, we have had, I believe, six years of unprecedented continuous growth and buoyancy in our economy. Sooner or later that has to come to an end. There is pressure on the labour force right now. Inflation is at about five per cent. There is some question as to whether interest rates should not possibly be lowered according to the economics, and we know what that can sometimes create regarding inflation and a number of things.

As the chief economist with the Ministry of Treasury and Economics, what do you feel is the most important factor that influences the decisions that you, as advisers to the minister, would make regarding the type of situation that we are coming into right now? Six years of unprecedented growth and a number of things--there is a pretty delicate balance here.

Dr. Purchase: I do not know that I could point to any one thing that I would single out more than anything else that I would advise the Treasurer to be concerned about more than anything else. Obviously in this respect, what we are telling him is that we think the economy will continue to grow in 1988 slightly more slowly than it did in 1987. I think that is the single most important factor. We are going to get continued economic growth. We see the

inflation rate declining slightly, which is also important. We think the unemployment rate will remain at its current reasonably low levels. Of course, in some parts of the country, particularly the strip around Highway 401 about 25 miles on either side from Oshawa to London, the labour markets are reasonably tight, one could argue very tight.

Mr. Villeneuve: So the 5.5 per cent or six per cent unemployment that you foresee for Ontario is basically due to people and their particular circumstances as opposed to the economy failing to employ them.

Dr. Purchase: I am not sure I quite understand that question.

Mr. Villeneuve: Coming from eastern Ontario, in some areas of the riding I represent we do have some problems with people getting jobs. I know that if you are in this area, there are no problems with employment. As a matter of fact, there is a shortage.

Dr. Purchase: Certainly, when we provide the Treasurer with our overview of the economy, we provide him with all the regional detail that we are able to accumulate with respect to unemployment rates and a number of other indicators of the regional economies.

Mr. Villeneuve: So I gather inflation is a very important aspect. When does the caution flash? Is five per cent inflation tolerable over the long haul or would you rather see it lower? We know that double digit, as it was in the 1970s is certainly not healthy.

Dr. Purchase: Obviously, a lower rate of inflation is better than a higher rate of inflation. What we would look at is the trend, whether there are accelerating rates of inflation--

Mr. Villeneuve: When do you sound the alarm? Anything over five per cent?

Dr. Purchase: Certainly over five per cent, we begin to be very concerned about inflation, yes. We were hoping that it would be able to stay around four per cent, as a matter of fact. Last year we were at five per cent. To some degree, as I say, that was accounted for by the very rapid run up of housing prices. If you took housing--that is, owner-accommodating housing--out of the consumer price index, you would get down to about 4.7 per cent from 5.1 per cent on the Ontario index. So it takes a significant amount.

Mr. Villeneuve: The interesting part about the cost of living is a lot of people attribute it to the price of food when, in fact, the price of food has been very constant and has not been a contributor to inflation.

Dr. Purchase: Offhand, I do not know, but I think it has not been one of the major factors leading to it.

Mr. Chairman: Just supplemental to that, your prediction in December was a real growth rate this year of 2.8 per cent. The federal Minister of Finance, coincidentally perhaps, made a similar prediction of 2.8 per cent last week. Am I correct in assuming that historically in recent years Ontario's growth rate has been greater than that of the full country?

Dr. Purchase: Yes, that is right.

Mr. Chairman: Does this tell you anything? Does this mean that their

prediction is more buoyant than ours, or does it mean that our province may be more in line in the next year or two with the growth of the rest of the country?

Dr. Purchase: We have felt that the Ontario growth rate is converging with the national growth rate. It did last year and the year before as well. It was a wide gap and is now getting closer to the national rate, largely because the economy of the rest of Canada is improving, whereas the Ontario growth rate is moderating from the high rates we had in 1986-87.

Mr. Chairman: Are you comfortable with that 2.8 per cent that Mr. Wilson has predicted for the whole country? Or is that perhaps a little exaggerated?

Dr. Purchase: No, I would not think that is exaggerated for the country. Qaid, would you comment?

Mr. Silk: It is in the ball park. Some private forecasters are predicting that. On the whole, I guess the consensus is slightly below, but not by very much, for Canada.

Mr. Chairman: Yes.

Dr. Purchase: I think there was some sense of excessive optimism. Some people have said that the federal government was too optimistic with respect to its medium-term forecasts, which I think were averaging around three per cent gross domestic product growth over the next five years or something like that.

That might be optimistic; I do not know. I really do not think it is excessively optimistic. No one forecasts recessions two years out. It is not usual. When people said, "They are not being realistic," I think what their forecasts were doing were what would normally be done by any forecasting method.

Mr. Harris: I have a few questions. Before I do that, I want to ask a supplementary on Mr. Nixon's point. I think it is important to clarify the impression out there. Let me say that I have heard this argument used, that if governments accounted the way the private sector accounts we would have a surplus this year. Frank Miller used to say that we have had a surplus nine out of 11 years or something, and treasurers traditionally use it.

The difficulty I have with it is that it brings in one focus of what governments do differently from the private sector. It does not bring in the second one; that is, there is no figure that talks about the cumulative amount of capital assets that you have and there is nothing for depreciation. I suggest to you that using the argument that we have all used and continue to use really does not make much sense unless you take off depreciation for those capital assets. In many years, I doubt that the amount we are putting into capital would even cover depreciation. Is that a fair comment?

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Mr. Gourley: I think the comment with respect to differences in accounting practice is correct. Whether or not the amount of capital spending in any one year would cover depreciation to a large extent depends on what you say the province owns. You may be familiar with studies that have gone on in the past that have said you can start at the pretty basic level and say, "If

we have built a building and we own it, it is ours and, therefore, that is one of our capital assets as a province." Then you get out into other areas, such as timber rights, and say: "That is an asset; it is a right. Traditionally, you can value that. How much should we value that for as a province?" Then there are all the natural resources out there, some of which are not yet fully explored or exploited, which should be on our balance sheet, and so on. I am not sure that argument is much more than interesting when you get to the broader scope.

When you look at our accounting practice, which is a cash-based system, we expense all of our capital expenditures in the year in which we make them, so there is no accrual accounting of our expenditures or our revenues, if you like. I believe the Canadian Institute of Chartered Accountants looked at a possible practice of introducing accrual accounting to government activities, and in our particular instance it would not make a significant change to do that. It would simply be an administrative change, and there would be no great benefit; there would be no significantly different story told. Then you get into the argument, as I say, as to what we own and what our balance sheet should look like.

Mr. J. B. Nixon: I was not trying to make the point, Mr. Harris, that if we did it on accrual accounting we would be in surplus--I agree that with all the problems that would be faced, how do you depreciate real estate and all of that--but simply that the deficit in a public government corporation's accounting is different from the deficit you would face if you accounted on an accrual basis with a private corporation.

Mr. Harris: And the two main things are here that there is no depreciation shown and that capital is treated as a current expenditure.

Mr. J. B. Nixon: That is right.

Mr. Harris: I would like to get to the paper. I apologize that I was not here when the Treasurer was here. There was a lot of snow in northern Ontario and Air Canada was late. I apologize because I think the opening remarks I have had a chance to read are garbage. I do not blame Mr. Gourley and Dr. Purchase for them; I blame the Treasurer, because I think he said you--

Mr. J. B. Nixon: It is unfortunate he is not here to defend himself.

Mr. Harris: I know, but he will read them. I am sure you will pass them on. I do not blame you, because I think he said: "Look, we have to have a reason for our deficit. Make something up that looks like it is all the feds' fault." I congratulate you on doing that, but I think it is fair that I look at it.

I am also disappointed because a large part of the discussion has been on what has happened and whose fault it is as opposed to where we are going in the future. Presumably, I guess, this is the day for it and, starting tomorrow, we will be hearing from people. I hope most of what we do will be, "What should we do this year?" because I think that is our mandate. But given that the paper is here, I think I should comment on it and ask a few questions.

The gist of the paper, I guess, is to rationalize why there is this \$1-billion deficit. Several have referred to it. It goes back to the nasty Trudeau days in 1981 and accumulates. If something had been done differently from 1981 through to 1988-89, you would have had another \$1 billion or so, \$900-and-some million.

Let us go to 1985, since the Treasurer seems more concerned about pointing out not what has happened in 1981, 1982, 1983 or 1984 but what has happened in 1985. He uses figures for 1985-86, 1986-87 and 1987-88. My first question is, is there anything that has happened since the agreement of 1985, which all provincial Treasurers were at, that has been unexpected, say, in 1986, in 1987 or in 1988, with regard to the established programs financing entitlements? Is there anything that we did not know was going to happen?

Mr. Gourley: Bill C-96.

Mr. Harris: Which came in 1986.

Mr. Gourley: Right.

Mr. Harris: Was that not a part of the discussions, though, in the 1985 meeting of finance ministers?

Mr. Gourley: I think you have to look at these three particular events in relation to the agreement which they changed, which was 1977, for the funding of programs which the provinces entered into and established levels of service and programs in their provinces on the basis of a certain understanding. On the basis of that understanding, they presumably committed themselves and their governments to undertake to provide certain services. What this is saying is that those understandings, those commitments they had, were changed.

Mr. Harris: Starting in 1977?

Mr. Gourley: Starting in 1981. There were three events we have cited here, the elimination of the revenue guarantee and the six and five caps on post-secondary education, which I think was in 1983-84.

Mr. Harris: But Bill C-96, which came in in 1986, was not a surprise. That was part of the discussions.

Mr. Gourley: There was a unilateral decision on the part of the federal government to change it and say that the growth in your transfers which you could calculate at that point--it was all based on economic performance and so on. You could calculate what your entitlement would be over the next few years and presumably make decisions as a government on where you would like to go. That bill changed the formula, changed the basis.

Mr. Harris: But in 1985 the indication was: "The bill will be coming in. This is what we are going to do from here forward."

Mr. Gourley: The government had said it was going to do something about it and this is the way it wanted it.

Mr. Harris: So there is nothing that has been a surprise in 1988 or 1987?

Mr. Gourley: There is nothing that was a surprise, if you like, on the federal budget night just recently. In fact, we pointed out in this document and in earlier documents we produced that the impacts the federal government decisions were having on us were significant. As it turned out, there was not a great deal of interest shown in it at the time we pointed it out.

Mr. Harris: Let us go to 1985, these three years. You make a notation that program financing grants have fallen from 42.9 per cent to 39.5 per cent of the amount you spent.

Mr. Gourley: Of the total spending on most of the programs.

Mr. Harris: I have to tell you that those involved in education would be happy if that was all that had happened to them over the period. Their transfers from the province to them have been reduced--I do not think they have been reduced, they have been increased, but they did not keep up with how school boards spent.

I use that analogy to get back to what happened in Ontario. The EPF entitlement in 1985-86 went up 8.2 per cent. Inflation in that year was around four per cent. Is it a fair statement that had Ontario maintained its expenditures in health and education to inflation, or four per cent, in fact you would have got a significant increase in money from the feds over and above what you spent?

Mr. Gourley: Not quite, because the federal government's entitlement payments to us are based in part on economic performance and inflation, if you like, built into that. So if the government had maintained a four per cent growth rate in its health and post-secondary education spending, it would have had to do so by cutting services. It could not have done it by providing the--

Mr. Harris: But the statement is that the transfer from the feds is based on inflation and it is based on--

Mr. Gourley: Population and economic performance.

Mr. Harris: On population and economic performance, but it is not based on how much you spent.

Mr. Gourley: No, it is not based on how much you have spent.

Mr. Harris: So the federal government has no control. You get this 8.2 per cent in 1985-86, and they have no control on whether you spend at the rate of inflation, double inflation or almost triple inflation, as has been your practice.

Mr. Gourley: No. In fact, the agreement in 1977 was brought in to deal in part with the fact that the federal government was shifting off on arrangements under which it had paid for 50 per cent of everything that was spent. That was creating difficulties for them, so they developed this formula approach, called it block funding established programs financing and set up rules. What we are pointing out here is that as we go along and the rules are generating more funding than the federal government was prepared to provide, the rules have been changed and there was a direct impact on us.

Mr. Harris: Did they do that, do you suppose, because they had no control over how much you spent? So if they were fixed at 50 per cent and you wanted to increase your spending, instead of just triple, four times or five times, then they had no control over that. In fact, they had to provide their 50 per cent with no control over what you spent. Is that why they changed it?

Mr. Gourley: They have no control over what the provinces choose to spend on these particular programs but they did say, "We have an agreement over here with you, which states the basis on which we will send our payments

to you, and here are the rules." So they said, if you like, "Here is a promise to pay for future expenditure programs."

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Mr. Harris: It really is not what happened, from--

Mr. Neumann: I would like to hear the rest.

Mr. Gourley: Once you have given a promise to pay--

Mr. Harris: You do not understand, then.

Mr. Gourley: --you have the rules and you can calculate your entitlements. You say, "Fine, we will go ahead and establish and increase our hospital services or increase our post-secondary transfers," or whatever, but after you have done that, or subsequently, you find out the rules have changed and you are not going to get as much as you thought you were going to get.

Mr. Harris: Right. What really happened was that this was the way it was done from 1977 to 1981. At about 1979-80, the federal government said: "This is not going to work into the future. We have no control over the expenditures. They can spend double or triple." This was a Liberal government at the time. I am not trying to bring politics into it but it has been brought in--

Mr. Haggerty: I thought Joe Clark was in around that time.

Mr. Harris: They said, "This is not working and we have no control over these expenditures, yet we are responsible for 50 per cent." So they changed the rules.

To me, it is an astounding feature of this 1988 budget process that the key argument being used by the Treasurer is that because of what happened in 1977 to 1981--the feds changed the rules and started to change them in 1981 and finished that change in 1985-86--he has a \$1-billion deficit. He increased health and education spending, over which the feds had no control, 10 per cent in 1985-86, about six points ahead of inflation; 13.1 per cent in 1986-87, about triple inflation; and 9.7 per cent estimated in 1987-88. Could this paper not have said, "If we had only doubled inflation in our expenditures, we would not have had a \$1-billion deficit"? Is that not a fair statement?

Mr. Gourley: In making the decision about the level of transfers to health agencies and post-secondary educational institutions, the Treasurer takes into account more than just inflation. It is not just providing for inflation. It is inflation plus additional workload in the form of new students, patients and--

Mr. Harris: Plus new programs.

Mr. Gourley: --new programs, so that those decisions are made.

Mr. Harris: But those are arbitrary decisions, political decisions that are made by the government, by the Treasurer and by the cabinet of the day.

Mr. Gourley: At the time they are made, they are made on the basis of a certain understanding about what moneys will be received.

Mr. Harris: Is there anything in 1986-87 or 1987-88 which the feds did that you did not know was going to happen? You were able to predict.

Mr. Gourley: Other than Bill C-96--

Mr. Harris: Which they knew was going to come out of the 1985 meeting and which had been talked about since 1981.

Mr. J. B. Nixon: On a point of order, Mr. Chairman: I would like Mr. Harris to clarify who "they" are. Clearly, this government was not party to those discussions.

Mr. Harris: I am talking about the finance department or whoever the government was. I do not care who was in power, federally or provincially.

Mr. J. B. Nixon: You cannot say this Treasurer was aware of discussions that may have taken place between the previous Treasurer and the Minister of Finance, because it was the previous government and those types of discussions were not--

Mr. Harris: I think news coverage of the 1985 ministers' conference, which this Treasurer was at, pretty well covered it. If you want to leave out 1985-86, let us go to 1986-87, where you went up 13.1 per cent.

Mr. J. B. Nixon: Then we have to leave out Bill C-96.

Mr. Harris: My point is this, the amount of money you were going to get from the feds in 1986-87 and in 1987-88 was predictable. We knew that.

Mr. Gourley: We now know that, so we--

Mr. Harris: I am getting at the justification for the \$1-billion deficit and for this ridiculous, garbage piece of paper that was handed out, "All of a sudden, something happened I didn't know." The only thing nobody knew was how much the Treasurer was going to spend.

Mr. Chairman: I think Mr. Harris's question is, to what extent did you know that these--

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Mr. Chairman: I think Mr. Harris's question is, to what extent did you know that these--

Mr. Neumann: The Treasurer admitted he knew all of that, that it was not a surprise.

Mr. Harris: OK. That is the point I want to get. You would agree with me that the federal government knew how much it was going to transfer; the provincial Treasurer knew how much he was going to get. It strikes me as odd that the whole reason for the deficit is, "I got what I knew I was going to get from the federal government," as you acknowledge. It has nothing to do with increases in these areas of spending. The provincial decision is, "I will increase spending in these areas 10 per cent, 13.1 and 9.7." Would you not acknowledge that had something to do with the problem, if it is a problem? If it is not a problem, then--

Mr. Chairman: Mr. Harris, we have not heard anyone say it is the only reason for the deficit. It has simply been put to us that the deficit would not have occurred if the established programs financing and growth figures had continued at 8.2 per cent.

Mr. Gourley: I would just like to make the point that in the federal

government's accounting for its presentation and its control of expenditures, the Treasurer pointed out earlier that some of that expenditure control was achieved by reducing transfers to provinces. The federal minister is able to say that expenditures are contained within a certain level, and that is not of insignificant consequence to the provinces.

Certainly the provinces know what their entitlements are, or forecast entitlements. In setting out this budget, this is one of the elements we have to consider.

We also have to consider tax reform, which is on the other page. Again, it is another element of the question of setting the budget that we have to bring to bear on the ultimate directions the Treasurer chooses to take.

Mr. Harris: In terms of the transfers the province has control of--and they never want to talk about those--to hospitals and school boards, let us say, what percentage did they increase in this period? I think that may be relevant.

Mr. Gourley: They have gone up between six and seven per cent. Those were our announcements. I believe the hospitals transfer was in the order of seven per cent and the universities and colleges one was in the order of six to 6.2 per cent. I will have to see whether I can find the specific announcements, and I do not think I have them handy. I could get those for you, but I know in the November announcements it was in the range of between six and seven per cent.

Mr. Harris: So the amount of revenue Ontario has received has averaged more than 10 per cent over the past three years and the transfers to hospitals and school boards have averaged six to seven per cent over that same period.

Mr. Gourley: No. I am sorry; I thought you were talking about the transfers for the fiscal year 1988-89, the announcements that were made in November.

Mr. Harris: OK. Let us zero in on them while we are on them. They were between six and seven?

Mr. Gourley: Right.

Mr. Chairman: I have some figures here in the Treasurer's November 18 announcement. It was: universities, 6.7; colleges, 6.0; hospitals, 6.9; and school boards, 6.8. Does that help?

Mr. Harris: This is what--1987-88?

Mr. Gourley: The 6.9 per cent was the transfers to hospitals, and of course, these growth rates include more than just hospital expenditures. The transfers from the federal government are for more; they are for health care and post-secondary education. Included in the growth rate in spending are all the Ontario health insurance plan payments, if you like, and grade 13, as the Treasurer mentioned earlier, in terms of post-secondary education. All those expenditures are grouped as one group to which this block of funding, established programs financing, is intended to apply. There is more than just the hospital expenditures.

Mr. Harris: In 1987-88, you got an increase of 6.7 per cent from the federal government.

Mr. Gourley: Right. That is this fiscal year.

Mr. Harris: And your increases in transfers to your agencies were about the same.

Mr. Gourley: The total spending is up 9.7 per cent. It is because of the fact that the announcements we made were just for hospitals. Hospitals went up about seven per cent. Obviously, OHIP payments, for instance, have grown much faster than that year over year, which are also included in health care spending.

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Mr. Harris: And there were new programs and new services and new spending, over which the federal government has no control.

I want to ask you one other question, if I may. I do not know whether it was in the third-quarter statement. I had a copy of it and I read through it. But somewhere I read a statement from the Treasurer--no, it was in the pension statement, which I realize is the Ministry of Financial Institutions, but I think the statement will impact on what happens with the interest.

There was a section in the pension statement--I guess it was the recommendations of the committee--that indicated that first dibs on the money in pension funds, like the superannuation and presumably other plans the provincial government has control over, has always been to provincial borrowing. I think they recommended that to cover indexing costs in the future that money be placed in the private sector. Is that your understanding of what that recommendation was?

Mr. Gourley: There was a recommendation that pension funds be allowed to invest in marketable securities. In fact, in his earlier remarks the Treasurer addressed that suggestion on the basis that it would presumably lead to a higher return than the returns fixed under the current borrowing terms. I do not pretend to be an expert on the pension question.

Mr. Haggerty: But the risks would be higher too, would they not?

Mr. Gourley: Yes, and presumably that is one of the reasons for a higher return.

Mr. Haggerty: That is right.

Mr. Harris: Although I have a fair bit of sympathy with that, I understand why governments have never done it in the past, because I think the benefits to government of ready access to cheap money have far overbalanced the performance of these pension plans. Certainly, if you historically go back over almost any other pension plan over the last 20 years where the investments have been sensitive to the market, they have done much better. I am intested in your reaction to it. Would you agree with that, or will that cause the government of Ontario a cumulative problem in its borrowing costs down the road?

Mr. J. B. Nixon: Is it not the case, though, that the legislation setting out the superannuation plan specifically prescribes the type of investments the fund can engage in and that it shall be a pay-as-you-go pension plan as opposed to one that is properly funded? It is not something you can turn around with the flick of a switch. We have to engage in some legislative changes. That is my understanding.

Mr. Harris: Were I in the Treasury, and a large part of my budget was the amount I paid out in interest each year--and as we have established, that is not going to go down unless interest rates keep going down. On average, I do not think many people think they are going to just keep going down ad infinitum, so it is going to cause a problem.

Dr. Purchase: This is not an area of my specialty either. Probably we should have our--

Mr. Chairman: I think you are getting a little off topic here, Mr. Harris, unless you have a specific question.

Mr. Harris: Let me just ask if you are concerned about that.

Dr. Purchase: One thing I can say is that I do not believe our Treasury people who do the borrowing regard the captive pension funds as a cheap source of money; quite the contrary.

Mr. Gourley: The rates are fixed.

Dr. Purchase: They feel we can do better than the guaranteed returns we offer those funds, so to the extent your question is based around that question of whether we regard that as a cheap source of financing, I think the answer is no, we do not regard it as a cheap source of financing, but we--

Mr. Harris: The Treasury then would not offer any opposition if the Ministry of Financial Institutions wanted to proceed that way.

Mr. Gourley: I think that whole process is under consultation as to whether this should be the practice in the future and what changes have to be made in order to permit that. But, as Dr. Purchase says, our experience has been that, based on current market rates, those funds are more expensive for us to borrow. Since the rate at which we borrow them is set, they happen to be more expensive than the market at the moment.

Mr. Harris: Because they are fixed for such a long term?

Dr. Purchase: Yes. I think there is a problem with their term to maturity because you have to borrow it I believe, for 20 years. Our colleagues think they can get it more cheaply at different terms to maturity.

Mr. Gourley: I am sure our Treasury colleagues would be saying, "I know, I know; why don't they ask me?"

Mr. Chairman: All right, Mr. Harris?

Mr. Harris: Yes.

Mr. Chairman: I want to thank you very much for your lengthy time with us this afternoon and your patience with us. At one time I was predicting we would adjourn about three quarters of an hour before now, but the questions have been incisive and we have been happy with the answers and we certainly look forward to continued co-operation with you, particularly over the next couple of weeks as we put together our report to the Treasurer. Thank you again.

As I mentioned a little earlier to the committee members regarding the discussion of whether or not and what independent studies on the trade

negotiations we might wish to peruse, unless I hear any opposition we will be adjourned--

Mr. Haggerty: I am looking at the drop of the American dollar, the increase in the Canadian dollar. There should be some in-depth study there because some of the witnesses have indicated that if the Canadian dollar goes to 82 cents--

Mr. Chairman: That is what I mean. We will discuss that with Mr. McClelland and Mr. McCague present on Wednesday, and unless I hear any disclaimer, looking at Wednesday's schedule, at one o'clock. Perhaps we will come back at one on Wednesday. Any problems with that? All right we will do that Wednesday at one o'clock.

That is on free trade, but for the rest of this week we will be hearing pre-budget submissions; we will be hearing them in room 228 for the rest of this week. The present plan is we will be back in this room on Monday and Tuesday of next week. In any event we will be in room 228 next week.

Just to indicate to those who are watching on television what is occurring, we are in fact beginning the public discussion of our advice as legislators to the Treasurer as to what should be in a budget which he is preparing to deliver some time in the month of April.

Over the course of the next five days we are going to be hearing submissions from various interest groups in the province as to what they feel should be in the budget. This is the result of public advertising we have done as well as our inviting particular groups to come and appear before us. We invite you, as members of the public, to come down and watch the submissions on those days in which we are not actually appearing on television.

We will be in room 228 at Queen's Park tomorrow, Wednesday and Thursday. If you are watching on television and cannot come down, tomorrow the television activity will involve the Meech Lake committee dealing with constitutional reform, Wednesday and Thursday the public accounts committee.

Tomorrow, if you can get down, we will be dealing with, at 10 o'clock tomorrow morning, the Federation of Ontario Cottagers' Associations; at 11 o'clock, the Ontario School Trustees' Council; at two o'clock tomorrow afternoon, the Ontario Public School Teachers' Federation; at three o'clock, the Advocacy Resource Centre for the Handicapped; at four o'clock, the Kitchener-Waterloo Social Planning Council.

On Wednesday at 10 o'clock, we will have before us the Ontario Road Builders' Association; at 11 o'clock, the Canadian Organization of Small Business; at two o'clock, the Ontario Hospital Association; at three o'clock, the Ontario Natural Gas Association; and at four o'clock, the Toronto Stock Exchange.

On Thursday we will be hearing from the Ontario Public Education Network from Barrie at 10 o'clock; at 11 o'clock, the Council of Ontario Universities; at two o'clock, the Retail Council of Canada; at three o'clock, there is Citizens for Public Justice, with Gerald Vandezande, a private citizen; and at four o'clock, the Ontario Confederation of University Faculty Associations.

Next week then in this room, hopefully at one o'clock, we will hear from the Association of Municipalities of Ontario and that will be on television. The Urban Development Institute will be here at two o'clock; a provincial

francophone association at three; and the Ontario Association of Alternative and Independent Schools at four o'clock.

On Tuesday of next week, hopefully also to be telecast, the Canadian Federation of Independent Business; at 11 o'clock, the Board of Trade of Metropolitan Toronto; at two o'clock, the Blind Organization of Ontario with Self-help Tactics; at three o'clock, the Ontario Trucking Association; and at four o'clock, the Ontario Public Service Employees Union. For the rest of next week then, we will be meeting possibly in camera or possibly publicly--the committee has to decide that--to decide what report we will bring to the Treasurer.

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If you are interested in this particular committee's activities, I invite you to make your interest known to the House leaders of the three parties, who decide which committees are being telecast, by phoning or writing the Honourable Sean Conway, the member for Renfrew North; David Cooke, not myself but rather the member for Windsor-Riverside; or Michael Harris, the member for Nipissing, as they make the decisions as to which committees are being telecast.

Finally, I should just let the public know that during the course of proceedings this afternoon I distributed a letter which I received from John E. Hall, the deputy consul general of the United States of America, who is concerned about some discussion that occurred during our free trade discussions about an alleged quote of the US Trade Representative, Clayton Yeutter, to the effect that within 20 years, with free trade, Canada would be sucked into the US economy. Mr. Hall points out that Mr. Yeutter's office denies that he said that and has asked us to disabuse ourselves of that evidence when we consider free trade.

That having been said, hopefully either we will see members of the public here tomorrow or they will be watching the select committee on constitutional reform on television.

The committee adjourned at 4:32 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

PREBUDGET CONSULTATION AND TAX REFORM

TUESDAY, FEBRUARY 16, 1988

Morning Sitting



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Harris, Michael D. (Nipissing PC) for Mr. McCague

Poole, Dianne (Eglinton L) for Mr. Pelissero

Clerk: Carrozza, Franco

Staff:

Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From the Federation of Ontario Cottagers' Association Inc.:

Anthon, Jean, President

Beare, John, Chairman, Taxation Committee

From the Ontario School Trustees' Council:

Nelson, Fiona, President, Association of Large School Boards in Ontario

Wright, Arlene, President, Ontario Public School Trustees' Association

Sherlock, James V., President, Ontario Separate School Trustees' Association

Parry, Ross, Director of Public Affairs, Ontario Public School Trustees' Association

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday, February 16, 1988

The committee met at 10:06 a.m. in room 228.

PREBUDGET CONSULTATION AND TAX REFORM
(continued)

Mr. Chairman: Perhaps we could get going. We have with us this morning the Federation of Ontario Cottagers' Associations Inc. You have their brief in front of you. Representing the federation this morning are John Beare, chairman of the taxation committee, Jean Anthon, president of the association and Birnbaum, director and chairman of the taxation committee of the Georgian Bay association. Mr. Beare, will you be the spokesman for the group?

Mr. Beare: I will, but Ms. Anthon would like a few words to start.

Ms. Anthon: I will give a brief introduction of the group for you, just in case you are not too aware of our federation. We personally represent three major cottage areas of the province. I am from the Haliburton area, John Beare is from Muskoka and John Birnbaum is from the Georgian Bay area. But we have been asked to represent all parts of the province on this vital issue of taxation.

The Federation of Ontario Cottagers has been organized for at least 25 years. We are a volunteer, nonprofit group, but we are considered the largest ratepayers' association in the province. We are the only group representing the cottagers in Ontario. We have active groups from as far north as Lake of the Woods, through Ottawa, the Thousand Islands and south to Niagara Falls, so we do cross-section the province very well.

We currently have 300 member associations that are very active with us, and we have made major presentations in the past on all major issues including the environment and, in particular, acid rain. We do have a history of concern on the taxation burden, generally referred to as "double taxation in cottage country". After acid rain, taxation is the number two issue with cottagers. I will let John go into the details.

Mr. Beare: We very much appreciate this opportunity to present our views to your committee. Cottage property taxes have increased very substantially over recent years. In the area in which I have my cottage, last year we had increases, on average, of over 30 per cent and in several areas there have been increases that have been doubling in one single year.

In the past, I think many ratepayers have assumed that the problem they faced with taxation has been exclusively the responsibility of their municipal governments and, accordingly, a lot of the protests have been directed at those governments. It seems to us that one of the major reasons is to be found instead in the declining share of provincial funding for education, in the structure of the financing of education, and those concerns surface at times when there are updates in market value assessment.

The property tax, it seems to us, is wholly appropriate for the financing of traditional municipal services, but it is, nevertheless, not a perfect tax. There are a lot of problems associated with it. It is sometimes asserted that it is a tax on wealth, but this is not the case. It is, instead, a tax merely on the market value of one particular asset, and this asset does not bear any necessary relationship to the owner's equity in that asset, because you can have, for example, a young family that has a large mortgage. Their equity in that asset is going to be small; yet they will be paying the same property taxes as a family in middle age, with the mortgage paid off and more comfortable financially.

Second, it bears no necessary relationship to any cash flow that is going to reflect an ability to pay. That is the case for the residential property tax, although not for the commercial and industrial. As we all know, this often creates a problem for pensioners and other groups. This kind of problem is exacerbated by the sorts of violent fluctuations that you see in property values in today's real estate markets. These would be problems even if assessed values were measured accurately with those wild fluctuations, but they create an additional problem for the assessors to be able to measure those values accurately.

Where I have my cottage, we have seen some cases of differences between assessed values and actual sale values in the year to which assessment is supposed to apply of as much as 50 per cent each way--some assessed values 50 per cent higher, some 50 per cent lower than actual sale values in the year of assessment. This is just a reflection of the problems of those volatile real estate markets.

Those sorts of considerations, it seems to us, would argue for a relatively light reliance on the property tax as a means of financing expenditures, but we find instead that in Ontario there is extremely heavy reliance placed on that source of revenue. For the consolidated provincial and local revenue in Ontario, property taxes are between 18 and 20 per cent of that total, whereas for both Quebec and the average of all other provinces in Canada the number is closer to 10 per cent. So Ontario relies to a far greater extent than any other province in Canada on the property tax as a source of revenue.

We have also checked the numbers in the aggregate for the United States in that respect. As a proportion of total government revenues, you have about the same percentage coming from property taxes in the United States as you do in Canada, and so Ontario stands out quite dramatically in that comparison as well.

A point of particular concern to second-home owners is that the system of property taxation bears very little relationship to the user-pay or benefit principle of taxation, whereby you are supposed to be receiving some services in exchange for the taxes that you pay. Nowhere is this more true than in cottage country. The prime problem in that is the financing of education, where between something like 50 and 70 per cent, depending on the area, of property taxes are education property taxes. In addition, because cottagers or second-home owners are rather light users of traditional municipal services, there is an element of subsidization of permanent residents of those areas for those sorts of services. This is something we merely note to make the point that we do make a contribution to those local communities. Indeed, we believe we should do that, but we think the structure of education financing in that is just not appropriate.

Another point: It is sometimes observed that property owners have experienced substantial capital gains, and that is no doubt the case. But we have to observe also that for second-home owners these are subject to capital gains taxes. It is hard to calculate exactly what the magnitude of that burden is going to be because it depends upon when a sale is going to be made and other sorts of considerations, but some very rough computation suggests that is a rather substantial addition to the overall tax burden.

In our view, the intellectual basis for the reform of property taxation has been provided by the Macdonald Commission on the Financing of Elementary and Secondary Education. There are three particular recommendations that it has made in which we have an interest. One is for a lower education mill rate for cottagers or second-home owners. A second is to increase the share of provincial funding for education, and we are pleased to note that this committee made that same recommendation last year. If I read the news reports correctly this morning, the Treasurer (Mr. R. F. Nixon) reiterated that commitment before this committee yesterday. Do I read them correctly? That was the Globe and Mail.

Mr. Chairman: I am not quite sure he went that far, but go ahead.

Mr. Beare: That is the Globe and Mail; I did not hear it.

I note also that the Association of Municipalities of Ontario last summer passed resolutions with huge majorities for full provincial funding of education.

A third recommendation which we think is likely to be of particular interest, and not only to the group that we represent, is the proposal for an education property tax credit whereby income taxes are reduced, roughly speaking, by the amount of the education property taxes paid. In the Macdonald scheme, this would be financed by the higher income tax rate. I will say more about that in a moment.

The general principle that underlies these recommendations and that we fully endorse is that the burden of education finance should be shifted to a broader and, generally, income-related base that would reflect the ability to pay. We believe that income is a far sounder measure of a person's economic status, and hence ability to pay, than is the market value of property. Furthermore, since you can build a measure of progressivity into that system, I think it is going to accord far better with almost everyone's view of fairness.

With respect specifically to the property tax credit scheme, the estimates in that commission headed by Ian Macdonald were that in 1985 the budgetary cost of that property tax credit scheme would be \$2.2 billion. That is a fairly large sum of money no doubt. We note that if, instead, the existing Ontario property tax credit scheme should be modified, then exactly the same objective could be achieved but at far smaller budgetary cost.

The existing property tax credit scheme first calculates a total property tax credit and then subtracts from that two per cent of taxable income. Then you are allowed to deduct that difference up to a maximum of \$500 from the income taxes that you pay. If that same sort of net basis were used for the financing or for an education property tax scheme, the budgetary cost would be far less than the \$2.2 billion that was suggested in the Macdonald commission report.

We do not have access to all of the massive data that would be necessary to make a precise estimate of what the budgetary cost of such a scheme calculated on a net basis would be. What we have done instead is just construct a simple example, which you will find appended to our brief. On the basis of that simple example, the budgetary cost would be under \$300 million, an amount that nevertheless is substantial but which we think, given the objectives that are going to be achieved, is still something far more within the realm of feasibility.

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In considering the sorts of benefits that would accrue from the adoption of a scheme of this general sort, obviously the constituency we represent, perhaps some 500,000 adults or more who are part of cottaging families, would be relieved from this burden of double taxation for education, paying a tax twice for a service we are only permitted to use once.

We have done a little bit of research on the economic status of cottagers and found a study that was done a few years ago by the Ministry of Natural Resources. Roughly speaking, the findings of that study suggest that cottagers are represented in all income categories. Perhaps they are a little bit wealthier than the average, but it is hard to come up with that number precisely, because one of the other things observed is that they are far more heavily represented in the age groups that are of peak earning capacity, age 30 to 65. People in their 20s are not well represented; people over 65 are not well represented.

We would argue that in so far as a measure of this sort would confer benefits for our constituency, it would be a fair measure, first, because we are relieved from this double taxation and, second, because it is not a question of a tax break which is just going to benefit people who are wealthy; it is, rather, a question of what is called horizontal equity, of equal treatment of people in equal situations.

Another group we believe would be substantial beneficiaries from this sort of measure are the permanent residents of cottage country. The statistics we have found on that suggest they have incomes that in general are among the lowest in the province.

The nature of these sorts of reforms would result neither in a reduction of revenues for their schools, because of the way in which education is financed, nor would it result in an increase in the overall tax burden on those individuals. That is essentially because the property tax is thought to be regressive, whereas the general revenues, relying heavily on income taxes, are not.

There is another substantial source of benefits for those people, however. That is because cottaging is the major industry for those sorts of areas. In Haliburton, Muskoka, Georgian Bay and the Kawarthas, it is the major industry. We submit that this industry is being taxed very heavily. If there should be a move towards the property tax credit or some such scheme that would relieve some of the burden of that taxation, there would be incentives for an expansion in that industry, in new building, in renovations, in increased spending in the retail trade and things of that sort.

Based on some very rough calculations, which are also appended to our brief, in the case of Muskoka it might result in an increase in incomes for permanent residents of up to 20 per cent. I emphasize that is merely one

estimate. In several telephone calls to various ministries, I have not been able to unearth any other studies anyone has made of that. I would most certainly welcome increased attention to that.

The essential point is that this industry is the recipient of the spending of people's recreational dollars, and those recreational dollars can be spent elsewhere. They can be spent on vacations in the Caribbean or Europe or yachting in Toronto or, if you are close to the Quebec border, on having a cottage in Quebec, where you do not have such heavy property taxes. So there is an element of foreign competition, in a sense, for this particular industry, and frankly, I cannot think of any other government policy which would be more effective as a tool of regional economic development for some of these regions that are among the least affluent in the province.

To the extent that the property tax is regressive--and I have not heard anyone argue that it is a progressive tax--then lower-income groups are going to benefit from this sort of measure as well, because the sort of cutoff point at which you can gain any benefits from the existing property tax credit scheme is pretty low. You would have to have a rather low income relative to your property taxes before you can gain any benefit from that.

Just to summarize, we support the general position of the Macdonald commission that reported a little over two years ago that education should be financed far more on the basis of income or ability to pay. This would substantially mitigate the gross unfairness that faces second home owners and others who pay a large percentage of their income in property tax, and we believe there are means, in particular if you have a property tax calculated on a net basis, as outlined in the appendix to our brief, that this can be achieved at relatively modest budgetary cost.

This is not the expenditure of new resources; it is simply the shifting of the burden for financing an existing and important program. It is also going to be, I think, an extremely important tool for regional economic development.

I cannot help making the observation that some of the bitter controversies we observe that surround the property tax--both in cottage country, either after an update in market value assessment or in areas that are facing an update, and indeed in the city of Toronto, where there seems to be a certain degree of controversy about property taxes--it seems to me, have to bear some relation to the overall magnitude of the revenues that are coming from the property tax and are not sufficiently offset by tax credit schemes and things of that nature.

Mr. Chairman: Thank you very much. You have given us a very well put together argument and a lot of interesting points to consider.

Ms. Poole: It is perhaps appropriate that I be the first speaker in this area, since market value assessment is a particular interest in my riding and many of the arguments you have made in the brief we have been making for the last number of years. I thank Mr. Pelissero for having to go to Calgary, as the parliamentary assistant to the Minister of Tourism and Recreation, to allow me this opportunity.

Many of your points are very well taken. First of all, we are in a very volatile market, we have been for years, and market value assessment is not an appropriate system when you are into a volatile market. The Conservative government in 1971 brought in the concept of market value when the market was

relatively stable. As we have seen since the latter part of the 1970s, this is no longer true, so it may well be time for this government to reassess its position on market value assessment, if anybody in the government is listening at the moment.

I think another interesting point you made was the purpose of property taxes. Really, the taxes are paying for municipal services, so does it not make sense to link the system to the municipal services that are being used? You have made a very valid point here in that you pay a very hefty price to the education portion, and yet, as cottagers, you are not even permitted to use the schools in your areas. I know I had complaints in the teachers' strike in Toronto from people in my riding who own cottages. Although they contributed substantially to the education portion, they were not allowed to use the schools during the teachers' strike, so I fully support what you are saying in that format as well.

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The third point does stem from education. Obviously there is a growing movement that education should be fully funded by the province and, in fact, this would make it a measure of those who are actually using the services. For instance, the senior citizens are not using educational services, they have not for years, and yet as long as it is tied to property value they are continuing to pay for education services.

I thought the most interesting point that you made in your brief was concerning the fact that assessment is considered to be a wealth tax. Yet what you very rightly pointed out was that the majority of your cottage owners are not wealthy, they are basically the middle class. I think if you look at the system of market value assessment, you are looking at a system that is taxing the middle class more than any other class.

I have to bring a question into this. It was not mentioned in your brief but I think you said you have half a million adults who are cottage owners in the province. Is that correct?

Mr. Beare: Yes. There are various estimates of the size of this constituency. The estimates that I have seen, actually in the same Ministry of Natural Resources study, varied, as I recall, from about 160,000 up to 300,000 as of 1983. Those are cottages. Multiply that figure by about 2.5 adults per cottage and you are at least at half a million. Some of the estimates are 600,000 and 700,000. We cannot pin it down exactly, but that is about the order of magnitude.

Ms. Poole: So you are looking at a substantial portion of the adults in our province.

Mr. Beare: Yes. It is about one in 20.

Ms. Poole: Your studies definitely show that it is really the middle class who are the bulk users of the cottage system.

Mr. Beare: I guess so. We have people in all income categories, but the middle class would be very heavily represented. That is correct.

Ms. Poole: Do I have time for one final question? It was on your comments on the Macdonald commission. You have named the three recommendations concerning cottagers. Have you, as an organization, put the full bulk of your

support towards one of these recommendations in particular or are you saying that, really, all three should be part of the scheme to bring relief to cottage owners?

Mr. Beare: We would be happy with either of those recommendations or some combination of them. In the various discussions that we have had, it seems that financially, and perhaps politically as well, the property tax credit scheme is the most feasible, with perhaps increasing the share of provincial funding being the strong second.

There are so many different considerations that are brought to play on this that we really do not want to be dogmatic and say that it must be the differential mill rate proposal. We are just one group among many. We have to consider the effects on education as well, obviously. We would be happy with any one, but as I say I think the property tax credit scheme seems to be an extremely attractive one and we would most certainly support that.

Ms. Poole: Thank you. I wish you well in your endeavours.

Mr. Chairman: Is this property tax credit scheme a scheme that would apply only to cottagers?

Mr. Beare: No, across the board, but cottagers would be included as well.

Mr. Chairman: Did I understand correctly that you were saying one possible solution would be to exempt cottagers from education tax?

Mr. Beare: That was one of the proposals of the Macdonald commission, the differential mill rate proposal. They essentially said it was something that should be examined. For the property tax credit, what we would argue is that all education property taxes, whether on primary residences or second homes, would be eligible to be included in that credit.

Mr. Chairman: I am just wondering how you would determine in some circumstances whether someone really was in his cottage or at home. I think in fact there is no problem with registering your children at the school in your cottage area, is there?

Mr. Beare: There is.

Mr. Chairman: Is there? You would not be allowed to do that?

Ms. Anthon: No.

Mr. Beare: Essentially, we would not.

Mr. Neumann: First of all, I would like to commend you on a very well presented brief. I do have some questions of clarification. I would like to hear your definition of "progressive" as it relates to taxing.

Mr. Beare: Progressive would take a larger fraction of someone's income in the form of tax, the higher his income is.

Mr. Neumann: Would you agree that taxation based on property ownership is taxation based on a crude measure of wealth, to some degree?

Mr. Beare: Very crude, because it does not measure equity in the

asset. Furthermore, it is only one asset that you can hold. You could have a condo in Florida, a yacht in the harbour in Toronto, money in Swiss bank accounts, whatever.

Ms. Poole: The other point, if I might just clarify, is with the fact that it is the wealthy. Many people purchased these assets a significant number of years ago, 20 or 30 years ago, when the cost was relatively low, and although the market value may be very high at the present time, the incomes have not increased too much.

Mr. Neumann: Thank you for that clarification.

Would you not agree that when someone purchases a property, even if he is just putting down a down payment, he is buying into, in some degree, an equity investment and reaps the benefits of the increase in property value over the years as opposed to someone who does not own property?

Mr. Beare: Yes.

Mr. Neumann: Would you also not agree that in addition to the people who operate businesses based on the cottage industry in the cottage area, another group that would benefit would be the cottage--you are saying there is an increase in demand for cottages. No doubt an increase in demand would also result in an increase in property values and the values of cottages.

Mr. Beare: That could be so too.

Mr. Neumann: So cottagers would benefit directly from this taxation scheme you are proposing, in terms of increased equity.

Ms. Anthon: Only at the time of sale, though.

Mr. Beare: That could be. It depends. A measure of that sort can perhaps, in the short run, be reflected in increased prices; in the long run, more likely in increased size of the cottaging stock.

Mr. Neumann: Also, if the province were to consider, in carefully husbanding the wealth and resources and taxation base of the province and trying to decide where the money should be allocated for expenditure, various social goals and objectives, here we have a situation where you are representing a group of people, by and large, who are owning their second piece of property. We have another group in Ontario who do not yet own their first piece of property, which is the family home.

Given the fact the province has scarce resources, if we are reallocating those resources to benefit someone, should the first priority not be to help people buy their first home rather than help a group of cottagers increase the value of their property?

Mr. Beare: I argue that both principles should be incorporated. The first principle is what we call vertical equity, essentially giving extra help to lower-income groups being financed by taxation of higher-income groups. Certainly, individually that is something we support. In particular, in the impact we would have then on the permanent residents of the cottage area, that objective would be satisfied.

But the objective we are talking about here is one of horizontal equity, of equal treatment of people in our own income class, whether we be

individually wealthy or of more modest means, equal treatment of the person who chooses to spend his recreational dollars on a holiday abroad rather than in the province, and indeed some of the poorest areas in the province.

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Mr. Neumann: My final question, Mr. Chairman, relates to the issue you raised, and I think it is a very interesting issue--

Mr. Chairman: I think Ms. Anthon has something to say.

Ms. Anthon: I just wanted to add, if I may, that I think you would find most people do not purchase cottage property as a form of investment. It is a way of life. It is their decision to spend their recreation dollars in that way. Obviously, it is like buying a painting. Do you buy it to enjoy it and live with it or do you buy it to sell some day? Very few of us do that when we buy a cottage. It is fine to say that their properties have increased. I am as shocked as everyone else to find how much my property has increased, but that does not affect my ability to pay my taxes, certainly.

Mr. Neumann: I appreciate that clarification. I would agree with you, the same way that I did not buy my home as an investment, although when I read experts such as Brian Costello they say the best investment you can make is to buy your own home. I am sure that the increase in equity in your cottage is a return on investment even though the major purpose in buying it is recreational.

Mr. Beare: Although, if I can interject, you have to distinguish between the increase because of general inflation and the real increase.

Mr. Chairman: That depends on where you live, of course. In my experience, I have made a better return on my city property than on my cottage property.

Mr. Neumann: My last question relates to the issue you raise of double taxation. How is the double taxation issue you raise different from that of a person in my community who owns a modest home, perhaps has been laid off at a factory, decides to go into a business of his own and buys a small piece of property to run his business? Is he not paying double education tax as well?

Mr. Beare: Do you mean because of the commercial-industrial tax?

Mr. Neumann: He is paying property tax on his home and he is paying property tax on his corner variety store.

Mr. Beare: Yes, OK.

Mr. Neumann: Is that not double taxation as well?

Mr. Ferraro: Plus business tax.

Mr. Beare: It is part, I guess, of the general rate of taxation of business, and frankly, that is not something we have addressed. It interacts with corporation income tax and all of those sorts of questions. Whether the rate of taxation of commercial-industrial property is excessive or not is just not something that we can address here.

Mr. Mackenzie: I have also enjoyed the presentation you have made. It has helped me focus a bit of my own thinking, because the question of what we should be paying in taxes on cottage properties is one that I guess I cannot say has concerned me, but it is something I have thought about a fair bit.

Like most people, I did not purchase my cottage in terms of the increase on investment. Indeed, when I compare--I was just looking at the figures--what I paid for it and what I suspect it is worth today as against my house, it has about half the increase that my city property has gone up. It is probably stretching it to say half, so it certainly was not as an investment.

I am not sure if we need some base tax or some better method of taking a look at the services. You are not getting the services, in effect, at a cottage, other than the availability of getting in there on the road into the place. Fire service, while it exists in the municipality, would be useless if I had a fire at my cottage. I have occasional problems with the septic system we put in. I really have a difficult time assessing the services that we are getting for it. It seems that you pay more on almost everything else.

I am convinced that some of the prices go up in the three months of the summer in the stores that I purchase from. On the other hand, you make a very effective argument that without the large number of people who are up there in the summer--I am in the Barry's Bay area--some of the local economic activity would be severely curtailed. What is already basically a low-income area would probably be even worse off if it were not for a tremendous influx of cottagers. Also, I pay damned near as much in hydro for my cottage, which I use for three or four months, as I do in the city for all year. So I know what you are talking about in terms of the costs.

On the other hand, I cannot get away from the feeling that, to some extent in Ontario, it is also a privilege and I think you have to pay for it. Even though there are a lot of cottagers, the majority of people do not have that luxury. I consider it a real privilege to own a cottage. I know we have a fair problem in terms of the costs of keeping our water clean in the lakes, and a lot of that is the number of cottages on lakes. I waited three years to try to buy a property on one lake and it was finally closed. The government was right in closing it, because the 800 cottages on the lake, and it was a lovely lake, were just overstretching the ability of that area to handle it.

I am just wondering if you accept or reject totally the idea that there may be a need for some kind of heavier taxes. You are obviously paying them now if you have the privilege of owning a cottage. I do not disagree with the transfer of the education tax. I think that is something I agreed with across the board, and more of a shift on to ability to pay is important. But given those, both of which would help a considerable amount, it seems to me there is still some obligation on somebody who is lucky enough to be able to afford a cottage.

It is not high income. I know the people; I was looking at them around our area. I noticed even in your own figures that you have 84 to 85 per cent of the cottagers in the \$10,000-up bracket--back in 1973, \$10,000 was a reasonable income--as against 63 or 64 per cent of the population of Ontario as a rule. So you have almost a fifth of them who are certainly in a higher-income bracket who have purchased cottage property.

I guess what I am really wrestling with is the unfairness and the lack of services I know are there. On the other hand, do we not have an obligation maybe to pay a little more than others for the privilege of owning a cottage in cottage country?

Mr. Beare: I think I agree with everything you say. One suggestion I would make, though, is that one should observe the age distribution of the cottage owners, who are principally in the--what is it?--the 35 to 65 age bracket, which is peak earning capacity.

Yes, I think we do have an obligation to pay a little bit more, but I think we do already with the share of taxation that goes for financing traditional municipal services, of which we are very light users, and as I mentioned, we are subject to capital gains taxes.

Mr. Mackenzie: That is another reason why you do not buy as an investment. At least, most of us do not.

Mr. Beare: Yes, and when you have general inflation, you have those prices going up just because of general inflation. It is not necessarily a real appreciation.

I agree with your premise that we probably should pay something for this privilege, but I think that even without the education tax, that obligation is being satisfied.

Mr. Mackenzie: I think your arguments in terms of transferring more to ability to pay and eliminating the education tax is certainly where we should be going, and I think the tax credit approach is a valid one.

As I say, I have thought about it a fair bit. I accept your argument right off the bat that there is an excessive tax given to services and everything else for cottagers, but how do we accept the responsibility that we are probably going to have to pay more for that privilege of having a cottage?

Mr. Beare: Yes.

Mr. Mackenzie: The other question I have does not really deal with this taxation brief, but it might have some influence on it. You mention the fact that the cottagers are there is an incentive that might otherwise be costing the government money in terms of the business that you bring to the cottage areas. Certainly, a number of the permanent residents in the area I am in rely almost entirely on the summer business to keep their businesses afloat.

The other argument that we are preventing an outflow of dollars is, I think, a valid one as well. That could cost the government money. I think we have only gone out of the country about twice in the 13 or 14 years we have had the cottage simply because that is where we like to go and spend our money, rather than heading to Florida or overseas or something.

I am a little concerned about the number of non-Canadians buying cottage property. Has your association taken a look at that at all? I know there is recent legislation in Manitoba to deal with this. Even in my own area there are two or three families who have come in and bought two or three of the prime lots, one of them not even used in the last year or two, all of them residents of the US. I am a little concerned about that being a development. They may or may not be more able to afford it and we may not be getting the

same services back in terms of the spending. I do not know of any study on that, but I am just wondering.

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Mr. Beare: I do not know the current numbers on that, either.

Mr. Mackenzie: That is not something your association has looked at?

Mr. Beare: We have to the extent that if you distinguish between increasing provincial funding and the property tax credit, increasing provincial funding is going to benefit all second-home owners, be they residents of the province or not, whereas it seems the only way a property tax credit scheme could be implemented would benefit just residents of the province. That is a balance one perhaps wants to wrestle with as well.

Mr. Chairman: Thank you, Mr. Mackenzie. I am just wondering if the national treatment provisions of the free trade agreement might affect that kind of legislation. If that legislation is not permitted, I suppose one net effect is an increase in property values of cottages as the market increases.

Mr. Beare: Yes.

Mr. Harris: A couple of quick questions. I was intrigued with your property tax scheme--and I enjoyed your presentation, by the way, and have some sympathy, particularly for paying twice for a service you are not eligible for.

Your property tax scheme, you say, is to be financed by higher provincial taxes. You are very clear that we are not to cut anything out of any other programs, but are to increase taxes. It surprised me that you were that forthright, actually.

Mr. Beare: I think it would be presumptuous of us to say which taxes should increase or whether expenditures should decrease.

Mr. Harris: You went that far. Maybe you could at least tell us which ones you want increased. No, I do not want to dwell on that.

Mr. Beare: Income taxes, say, sales taxes.

Mr. Harris: Do you have an average figure across the province--Muskoka, I presume, is probably higher--of the amount of property taxes that are paid, the education portion, by cottagers?

Mr. Beare: I do not have a precise figure, but roughly I reckon it is about \$100 million.

Mr. Harris: Based on \$500 then and 200,000?

Mr. Beare: Roughly.

Mr. Harris: I am intrigued with that because I have \$100 million written down here, which I guessed at. Your proposal I am very intrigued with, though, the modified credit, but what you are really here for is cottagers. If we just eliminated property taxes on the education side for cottagers, it would cost us \$100 million. Yet you have come in with a proposal, probably

your most featured proposal, that will cost us \$300 million. Is that so you will get broader support for your proposal, because everybody will be affected?

Mr. Beare: As an individual, I could come in and support that. We have had various discussions with people in the Ministry of Revenue and elsewhere and they have raised some objections just on technical grounds of implementing the proposal of having a differential mill rate for second-home owners.

Mr. Harris: I am interested in that, because very often these things are more complex than they appear. Did you talk to them about being able to claim it as some form of credit, in other words, filing somewhere that you have already paid property taxes? If you have two property tax bills, nobody can argue: you pay twice. Presumably, you should be then entitled to a refund, if that is the way it is done, in the area where your children are not going to school.

Mr. Beare: That would be easy enough to do through a property tax credit scheme. As far as we are concerned, we would be as happy if only second-home owners were allowed to claim that or if all residents were allowed to claim that. Speaking as an economist and not just a representative of this association, I think there is a strong argument to be made for having it across the board, for all residential property taxes paid. As I say, I do not think we, as just one association and one interested group, can be dogmatic and say that this is the way it has to be. I think our support has to be general, for the principle.

Mr. Chairman: Thank you very much. You have obviously given the committee a great deal to wrestle with. You presented it very well, and I think we are all impressed indeed. Obviously, Mr. MacKenzie and I will have to exempt ourselves from the discussion. The committee will, I am sure, take into consideration your suggestions.

I should correct myself. I have now seen the Globe and Mail, and apparently Mr. Nixon, after he spoke to the committee, indicated in the hallway that in the long run we are still aiming at paying 60 per cent of the cost of schooling.

Mr. Ferraro: We applaud that remark.

Mr. Chairman: Thank you.

Mr. Mackenzie: Do not hold your breath.

Mr. Chairman: Thank you very much. We now have the Ontario School Trustees' Council, which I am sure is interested as well in that comment. I understand the spokesperson for the council will be Chris Asseff. Is that correct? No.

We have Arlene Wright, president of Ontario Public School Trustees' Association; Fiona Nelson, president of the Association of Large School Boards in Ontario; Jim Sherlock of the Ontario Separate School Trustees' Association; and Ross Parry, director of public affairs of the Ontario Public School Trustees' Association.

The brief from the association is being distributed now; so members of the committee will not have had a chance to peruse it. Perhaps you can lead us through it.

ONTARIO SCHOOL TRUSTEES' COUNCIL

Ms. Nelson: Mr. Chairman, I am Fiona Nelson and I will start off, if you wish.

First of all, I would like to express the regrets of the chairman of OSTC, Marilyn Rowe, that she could not be here today, nor could the presidents of the Northern Ontario School Trustees' Association or l'Association française des conseils scolaires de L'Ontario. But you should know that the blue-bound book before you is endorsed by all five associations and by OSTC itself.

Obviously, we have come before you today to discuss the concerns that we have about the funding of education in Ontario. You have before you our blue book. I think it might be useful to take you through that. Then perhaps you could ask us questions when we are finished.

For 1988, the Ontario government will transfer to school boards just over \$3.8 billion in operating grants. When added to the government's capital allocation of \$226 million, the government's investment in education will total just over \$4 billion. But I would like to point out to you that local ratepayers will be contributing over \$5 billion.

It sounds like a lot of money, and it is. The question is: Is it enough assistance from the provincial government as the senior partner in education? Mr. Nixon has already indicated yesterday that he is under a great deal of pressure to increase spending on education, and we hope his wishes will prevail if that pressure has been effective.

Assuming that Ontario's public and separate school boards and the Ministry of Education did nothing but maintain the current elementary and secondary school system, the costs of goods and services and salaries would probably require annual increases of between 4.5 per cent and five per cent. This would mean that both the government and the school boards would have to put aside changes, innovations, improvements and other alterations to the structure and curriculum of Ontario's schools. Neither the government nor the school boards have indicated that they wish to take this approach.

The education system has experienced, and continues to experience enormous change and transition in many areas. Together, the Ontario government and school boards have opted to make changes and improvements which are necessary if the school board is to offer to each and every student, young and old, male and female, a learning experience that is meaningful, relevant, diverse, inviting and all those other good things.

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Consider the list of recent events which will continue to affect the elementary and secondary school systems. We have listed them here: unprecedented growth in suburban areas, which is resulting in an enormous capital request just to house new students; increased demands for a more relevant, diversified and compelling curriculum--yesterday, we had added to that list the requirements that Mr. Radwanski thinks are needed for the secondary school system--increased demands to reduce the number of dropouts and stopouts; ever-increasing demands to keep up with technological changes as well as labour force changes; unprecedented interest and demand for continuing education and lifelong learning; demands to enhance student literacy and

numeracy. Yesterday, once again, we heard that \$4 billion is lost through the fact that workers are not sufficiently literate and numerate.

These are in addition to implementing the legislation extending funding to separate schools and guaranteeing the right of students to receive education in the minority language and for parents to have governance over that education. As well, there is the goal of providing programs in French and English as second languages and heritage language programs.

The above list is not complete, but it does illustrate the agenda facing the Ontario school system as of today. It is an agenda of transition and change. In order to meet this agenda, the Ontario government and school boards will need to draw on the best resources and talent available. They also need commitment and funding.

In their April 1987 report to the Legislature, members of the standing committee on finance and economic affairs offered the following advice in preparation for the 1987 budget:

"The government should increase, in a phased program, its share of funding to elementary and secondary education to 60 per cent of total expenditures and property tax should be proportionately decreased through an appropriate tax mechanism.

"The committee is of the opinion that property tax is not the most appropriate basis for education revenue. A formula is required to ensure that the taxpayer benefits directly from the increased role to be assumed by the province."

This and other recommendations of the committee with respect to the 1987 Ontario budget were adopted by the Legislature.

The committee further stated, "The proposed increased funding should be the direct responsibility of the province and there should be less dependence upon municipal property tax for education funds than is the case today."

How dependent is our education system on property taxation and what happened to the level of provincial support and why? Is 1988 to be the 13th straight year of decline in the provincial share of the funding of education?

Based on Ministry of Education figures supplied by the grant services section in 1987, it is estimated that government grants accounted for 44.92 per cent of the net operating expenditures. In some school board jurisdictions, local property taxes accounted for less than 10 per cent of the operating revenue, while in other jurisdictions local taxation accounted for more than 90 per cent of education revenue. In 1986, the Ontario government provided 45.62 per cent of net operating revenue, actual, while in 1985, the government provided 46.62 per cent. In 1975, the government grants to school boards accounted for 61.3 per cent of net operating expenditures.

The 20-point drop in the rate of provincial support over the past 13 years has been passed on to local property taxpayers. This trend, which has continued, not only ignores the burden on property taxpayers but also conflicts with the expressed opinion of the former minority Legislature and the promises made by the government in the last two provincial elections. Finally, this alarming trend in increasing property taxation also does not sit well next to the Liberal Party's long-standing position on property tax reform.

A popular argument to stall or do little to regain the Ontario government's financial commitment to elementary and secondary education can be summarized as follows: there are no controls on local school board spending and therefore the government cannot commit itself to fund 60 per cent of the costs of the education system if the total amount cannot be controlled.

This is the moving-target theory, with the cost of education being the moving target. The government has argued that it will continue funding 60 per cent of education costs provided the costs are not open-ended. Apart from other things, the moving-target theory portrays local education costs going up for no apparent reason. The argument fails to see the needs and delivery of education as the moving target that both school boards and the government are attempting to reach.

For example, both levels of government are embarking on new programs to reduce the drop-out rate, which is a moving target. Similarly, we are attempting to meet the capital needs of the Ontario school system, which is also a moving target. The extension of funding to separate schools is a moving target. Reducing class size in the primary grades is a moving target. All these have cost implications for both the Ontario government and the school boards, not just now, but five, 10 and 20 years from now.

We, as responsible and concerned political leaders, believe that targets in education which are almost always in transition are worth realizing, because to do so will be to improve the chances of retaining our young people in our schools and giving them a better chance to succeed. Meeting these targets will build the elementary and secondary schools which are so desperately needed and make our schools more technologically relevant. It is through reaching these targets that we will ensure quality and equality of educational opportunities and experiences.

The Ontario School Trustees' Council submits that the above is what the 60 per cent government commitment to funding education is all about. If the costs of education were closed-ended, then perhaps one could conclude that we can, as leaders, do nothing more than maintain the status quo in the quality and delivery of education. The Ontario School Trustees' Council believes that school boards and the Ontario government can do more. In fact, we must do more.

Since 1985, the government's position with respect to level of contribution to elementary and secondary education has changed from funding 60 per cent of the total education costs to funding 60 per cent of approved costs. This change, while appearing to be merely semantic, has some enormous political and financial implications for both the government and the school boards.

There is, of course, a substantial difference between funding 60 per cent of total costs and funding 60 per cent of approved costs. Similarly, the government establishes, for the purposes of grants, recognized spending limits or ceilings for both the elementary and secondary panels. In short, these expenditure ceilings limit the government's contribution towards the cost of educating an elementary or secondary school student.

School boards have argued that the government has not increased its per-pupil expenditure levels to keep pace with the increasing cost of meeting new demands and expectations of the system and the increasing costs of goods and services. The net result of this has meant that school boards have had to absorb more and more of the per-pupil costs by their only other source of revenue--the local rates.

For school boards, the government's reduced share of funding has put a serious strain on local taxpayers. Smaller rural and northern Ontario boards, which rely more heavily on government grants, find that the strain on the local tax base severely inhibits the ability of these boards to meet even the provincially and locally generated education needs.

In short, approved per-pupil spending ceilings set by the Ontario government have become unrealistic in relationship to the costs of educating elementary and secondary students. Consequently, the Ontario School Trustees' Council would point out that one of the most important means by which the Ontario government can improve its level of contribution to the education system, thus providing relief for property taxpayers and restoring greater equity to school boards, is to substantially increase the per-pupil recognized expenditure ceilings.

The 1987 per-pupil expenditure ceilings set by the Ontario government, when compared to actual per-pupil expenditures, illustrate just how unrealistic the government's level of funding has become. You can see by the chart just what the situation is. The above figures clearly show that government grants have failed to keep up with the real costs of education.

For more specifics on this, I would now ask the president of the Ontario Public School Trustees' Association, Arlene Wright, to take you through our position on the needs in capital funding.

Ms. Wright: Before I get into that, I would like to introduce Ross Parry, the director of public affairs for the Ontario Public School Trustees' Association, who is our resource person for this presentation. We also have with us Chris Asseff, the interim administrative co-ordinator of the Ontario School Trustees' Council; Ernie Nyitrai, who is the executive director of the Ontario Separate School Trustees' Association; Earl McCabe, the deputy executive director of OSSTA; and Bill Phillips, who is the executive director of the Ontario Public School Trustees' Association.

I am going to go through the capital funding part.

Both the public and separate school boards in Ontario are still drastically underfunded in terms of their capital requirements. There is a critical need for considerably more funds for new schools to accommodate growth in enrolment; renovations of ageing school facilities to accommodate fire marshal's requirements and health and safety regulations; renovations and replacement of facilities to accommodate programs required by either the Ministry of Education or the local community; and the repair, replacement and upgrading to meet technological change.

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For 1987, Ontario school boards requested \$1.1 billion for capital projects from the Ministry of Education, but those projected expenditures included the four areas outlined above. The Ministry of Education secured from government an announced capital program of \$293 million, of which the government would provide \$226 million in capital grants to school boards. Although government capital grants have more than tripled since 1985, the shortfall in capital funding stands at a staggering figure of more than \$870 million.

The 1988 figures are now out, and you do not have them in front of you but I would tell you that our needs for 1988 are \$1.7 billion. This is a staggering amount of money.

In 1985 there were 4,000 portables accommodating 110,000 students. By 1989 there will be 7,300 portables accommodating 210,000 students, which shows you, again, the growing need for capital expansion.

In growing municipalities, primarily in and around the major metropolitan centres, school boards are posting signs on new subdivisions and advising on property deeds that a school may not be built in the area and that students may have to be bused to neighbouring communities.

In some growth boards, the need for new pupil spaces is so dire that maintenance and renovation projects are continuously deferred in favour of seeking funding for new school sites and buildings. Pressure from local taxpayers to build new schools has become intense in some parts of the province as new home buyers realize that their neighbourhood may not have an elementary or secondary school when the development is completed.

At best, boards can install portables on school sites, but this is a stopgap measure. There is a limit to the number of portables that can be located on an existing site, both in terms of space available and because of limitations they impose on programs and on the core facilities of the school; for example, washrooms, library, offices, gymnasias, etc. Maintenance of these portables is also very expensive.

Many growth boards are transporting students from their homes in a new subdivision to the nearest school with space, often a school which is located in another community. For many students, following a bus route schedule means not being able to participate in the full range of programs offered by their school. Some parents feel cheated at not having the expected neighbourhood elementary school or district secondary school for their children and for use by the community and so advise their local boards.

In all board jurisdictions of the province, schools are disadvantaged by the scarcity of funds for renovations, the replacement of equipment and upgrading to fit program demands. In many jurisdictions, these capital projects are being financed entirely by the local mill rate because government funding is unobtainable. Only about 20 per cent of the total Ministry of Education capital grant allocation is directed towards school renovation and repair.

If the school system is to continue to graduate young people who are able to capitalize on their education experiences in a competitive and changing workforce, the school system must be equipped with sufficient state-of-the-art facilities and technology. Not only does the lack of modern facilities and technology impede the ability of the school system to produce adequately trained young people, but it also takes a toll on the overall quality and delivery of service.

The lack of adequate facilities in 1988 has meant that school boards have had to rely more and more on the use of portables. Unprecedented growth in public and separate school board jurisdictions such as York region, Carleton, Peel, Durham, Scarborough and Simcoe means that more than 75,000 students are currently housed in portable classrooms. Some of these school jurisdictions will be forced to add over 100 additional portables this coming September. Already these school boards are using over 2,500 portables. In fact, on a province-wide basis, more than 182,000 students are now being housed in over 6,500 portables.

In addition, extended funding to separate secondary schools has

increased the demand for space in separate schools, causing an ever-increasing need for new school construction and renovations to existing schools to accommodate program requirements.

Overcrowding in Ontario schools translates into inadequate facilities for libraries, physical education, lunchrooms and washrooms, as well as too much time spent on school buses, taking time away from extracurricular activities. It is not uncommon to find elementary students eating their lunch on the floor in corridors and gyms due to overcrowding.

I would now call on my friend Jim, from the Ontario Separate School Trustees' Association, to conclude our brief.

Mr. Sherlock: Thank you. Mr. Chairman, I want to commend you and the committee members for holding up so well under this traumatic reading. The good news is that it is near the end. We did want to read our brief into the record.

Mr. Ferraro: We are used to it.

Mr. Sherlock: The Ontario School Trustees' Council applauds the initiatives of the provincial government to analyse the long-standing problem of school drop-outs and to work with school boards on both prevention and re-entry initiatives. We support the stated goal of the government to reduce the number of drop-outs by one third within a period of five years. We pledge our full co-operation in this effort.

We are equally concerned about the ability of school boards to meet the learning needs of people who have already dropped out or who will drop out in the future, when these individuals are willing and able to profit from further instruction.

Continuing education programs for literacy, numeracy, English or French as second languages for immigrants, as well as credit courses towards secondary school graduation diplomas are viewed increasingly as the minimum education required for entry-level jobs.

The Ontario School Trustees' Council is concerned that current funding arrangements for continuing education are not sufficient so that the learning needs of adults can be met. The concern has two basic dimensions:

1. The provincial policy of full funding of continuing education programs for certain purposes--literacy, English as a second language, French as a second language and credit--does not match with the full amount of grants necessary to meet the actual costs of these programs; and
2. The absence of provincial funding for any other kinds of continuing education programs places many parts of the province at an educational disadvantage, especially people who live in northern, rural and/or francophone parts of Ontario.

In our view, these limitations on provincial assistance are not in the best interests of meeting the learning needs of all Ontario residents.

One way of addressing the needs of drop-outs, for example, is to encourage school boards to ensure that these individuals may enjoy the benefits of continuous entry to education programs, something which is a goal of the Ministry of Skills Development.

The absence of full funding for summer school and night school programs means either no programs or an undue burden upon the local ratepayer.

The last part of our brief is a specific request with respect to the exemption from provincial sales tax. The purpose of the section is to comment upon the proposed national sales tax and existing provincial sales tax.

First of all, the Ontario School Trustees' Council, on behalf of its member associations and all elected school trustees in Ontario, expresses its appreciation and thanks to the Honourable Robert Nixon, Treasurer of Ontario, for successful leadership in the struggle to persuade the government of Canada to rethink its proposal to apply the concept of a national sales tax or equivalent to such public institutions as schools, municipalities, hospitals, colleges and universities.

We note with thanks the strong and effective representations made by the Treasurer and his officials to the federal government. These representations have saved Ontario school boards--and our respective local ratepayers--from an added cost of between \$50 million and \$100 million, depending on how the proposed national sales tax might have been applied. We note the repeated public commitments of the federal Minister of Finance during the month of December 1987 that school boards, municipalities, hospitals, colleges and universities should not pay more tax under the proposed national sales tax.

The second issue we wish to address is the existing provincial sales tax itself. We request that school boards be exempted from the provincial sales tax, as they were a few years ago. This is consistent with the request of Mr. Nixon as reported in his statement to the Legislature on November 18, 1987: "I have asked Mr. Wilson to provide either a plan for a tax-free approach or an appropriate compensation mechanism for provincial and other public sector transactions, should this new tax be implemented."

Progress towards an integrated federal-provincial sales tax will be assisted by the removal of such public sector transactions as the purchase or lease of goods and services by school boards. We see this removal of the provincial sales tax as a matter of fairness to local school ratepayers, who must otherwise pay the cost of the provincial sales tax as part of their education property taxes--in other words, paying tax to pay tax.

In addition, the committee will recall the Treasurer's statement to a member association of the Ontario School Trustees' Council during its November 13, 1986, presentation to the standing committee on finance and economic affairs on Bill 26, An act to amend the Retail Sales Tax Act.

With respect to its recommendation to exempt school boards from provincial sales tax, the Treasurer stated: "I am very interested in your presentation because I used to make the same argument in a previous incarnation. I can remember the argument made at that time during the debate on the budget; that is, that the exemption at the educational level for sales tax was a hidden subsidy.

"The argument was that since there is a very elaborate and mature subsidy program already involved in the general legislative grants and other transfers, it would be better to pay the tax so that the upfront costs of education would be readily understood by the taxpayers. As I recall, that was the justification. I did not think it was very good then. I am thinking about changing the policy, but after all, we cannot do everything at once."

The Ontario School Trustees' Council requests that the standing committee on finance and economic affairs recommend that school boards' exemption from the provincial sales tax be restored. Thank you very much.

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Mr. Chairman: Thank you very much. I think members of the committee are probably beginning to feel the pulls and tugs that the Treasurer has to feel when he is trying to prepare a budget. I have questions from Ms. Poole, Mr. Nixon and Mr. Neumann.

Ms. Wright: Mr. Chairman, could I just also introduce another member who is here, whom through oversight I forgot to introduce?

Mr. Chairman: Yes, go ahead. I am sorry.

Ms. Wright: John Adams is with us. He is the director of government relations for the Association of Large School Boards in Ontario.

Ms. Poole: I would like to congratulate the OSTC on its presentation today. I think you have summarized, in a very articulate and meaningful way, some of the challenges that are facing us in education today and I certainly have no quarrel with what you have in this brief.

Part of the problem is not only recognizing what is wrong with the system or what needs to be changed, but also giving some direction as to how we are going to change it. Ms. Nelson was giving us a list, on page 2, of the new demands that we have had on our education system. You add to that her comments on school renovations and repairs, focusing on the portables that we have right now.

First of all, we have talked about the increases but we have not perhaps talked at the same time about reducing inefficiencies in the system. Surely, any bureaucracy as large as education must have inefficiencies. I have not seen a lot of reports that really deal with this, as to whether it has been analysed by the Ministry of Education and whether there have been recommendations as to the boards of education. How do we deal with inefficiencies that are in the system?

Ms. Nelson: I guess what we are talking about is improving management techniques, which are the sorts of things that every organization attempts to do all the time. It is very difficult in an organization that is so labour-intensive, where an enormous proportion of the budget goes on salaries, to talk about cutting things because the things are a very small part of the budget. The pressure is, in fact, to get more people into the system to reduce the class sizes and to have more adults in contact with children, which is going to increase rather than decrease the costs. I am not certain that in education there are great savings to be made on things.

Ms. Poole: I know back in the early 1970s there was a lot of money put into education and there were many stories circulating about how boards were given grants--say, for capital expenditures, improving the buildings--and you would have rugs changed year by year, you would have equipment bought that really was unnecessary. Now you do not hear about that any more. I think the fear the board had that it would have the money taken away if it did not spend it somehow is gone. Now we are down to the nub, I think, of saying--like you say, it is very labour-intensive--do we have duplication, do we have some bureaucracy that is perhaps less meaningful and can be replaced?

Ms. Wright: Trustees are accountable to their ratepayers legally, through the Education Act. I believe that all boards of education, if they found there were inefficiencies, would certainly have to answer to their ratepayers.

Ms. Poole: But there has been actually no comprehensive study done on it.

Ms. Wright: I believe that is done at the local level.

Ms. Poole: OK. The second question I have relates again to page 2, where it is talking about the right of students to receive education in the minority language and for parents to have governance over that education. As well, there is the goal of providing programs in French and English as second language and heritage language programs.

Now do not get me wrong. My children were both in French immersion for many years and my daughter is still in it. I am very supportive of the program, but the question remains, are we trying to do too much in too many directions for too many people, instead of concentrating on certain basics, such as the quality of education and the reduction of class size? Do you think we are expanding ourselves and trying to be all things to all people?

Ms. Wright: In some instances, we are just following legislation.

Ms. Poole: No, I am not trying to say that it is the board of education or the school trustees or anybody who is doing it or that the province is doing it. I am just saying, as a philosophy, do you think we, as legislators and as educators, are trying to do too many things in too many directions at the same time instead of concentrating on what really needs to be remedied in the system?

Mr. Sherlock: Your chairman mentioned at the onset of the question period the many demands on the Treasurer and on the government. I think school boards are in the same position. We have to try to discriminate among the legitimate demands, but there are a lot of legitimate demands that we can meet fully. We try to prioritize and address them as best we can. I would agree with you that there is a tremendous number of demands and it is very difficult to meet them all.

Ms. Poole: OK. I will try not to take too much more time because I know that everybody would like to ask a great number of questions.

Again, I will address Ms. Nelson on this because I think she has spoken out on the issue. She has mentioned at the bottom of page 3, "In some school board jurisdictions, local property taxes accounted for less than 10 per cent of operating revenue, while in other jurisdictions local taxation accounted for more than 90 per cent of education revenue." I know this is very true. For instance, in the city of Toronto almost everything is paid locally as opposed to by the province, while the city of Geraldton perhaps might have 80 per cent of education paid by the province and substantially less by the municipality.

We have heard from the Macdonald commission and other reports about a concept of provincial pooling of commercial and industrial taxation. I wonder if you would perhaps give a little brief background for the members on provincial pooling and also give your comments on how you think that would affect our education system in Toronto.

Ms. Nelson: I have to give you a caveat, to start with. Among the five member associations of Ontario School Trustees' Council, there are differences of opinion about the efficacy of pooling. I cannot speak for OSTC on pooling. If you do not mind hearing it from one association's point of view, I could do that, but I would want to make it very clear I was not speaking on behalf of OSTC.

Ms. Poole: Certainly. I would like your point of view on this.

Ms. Nelson: All right.

Mr. Sherlock: And I would like to have equal time.

Ms. Nelson: Yes. I was about to say that I think that you are going to get conflicting points of view here from the two of us.

Ms. Poole: I would like to have the rest of the members--

Ms. Nelson: If that is perceived to be in order, I do not mind doing it.

Mr. Chairman: I understand that you are speaking now for the large school boards.

Ms. Nelson: That is correct, Mr. Chairman. The recommendations of the Macdonald commission concern the Association of Large School Boards in Ontario for two reasons. One, municipalities have only one source of revenue and that is the local tax base. Since we are elected as trustees of that tax base, we would rather like to maintain some degree of autonomy over it and the proposals with regard to pooling would remove from us a significant part of that responsibility, which we do not think would be appropriate.

Second, we have a concern, sometimes verging on paranoia, that the amount of money that would be pooled by taking over the local industrial and commercial tax base would not come back to education. Even if it did, it would not be increasing the amount of money available to education. The whole burden of our song here this morning is for you people to kick in more, not for you just to take over some of ours. That does not seem to us to have any increase in usefulness to public education.

We are also concerned with regard to pooling that the control over education would then rest so firmly in provincial hands that perhaps the usefulness of local boards would be diminished to the point where we would be merely the buffers between provincial education policy and what was left of the local tax base for education. That is of concern to us.

There is a much longer presentation I could make. I do not think it would be appropriate here, and Mr. Sherlock is getting itchy.

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Mr. Chairman: Mr. Sherlock, you have to be from Geraldton.

Mr. Sherlock: It has been well documented that, first, under the current grant system, up to the grant ceilings everyone has equal resources; beyond the grant ceilings, where boards have to rely totally on their local assessment, it is documented back through Dr. Robert Jackson's report in which

he first recommended pooling, through the extended term of Dr. Stephenson as Minister of Education, that it was a problem that had to be addressed, the problem not particularly of separate school boards but of assessment-poor boards in general. There are just tremendous discrepancies in the resources available beyond the ceilings.

It is another recommendation of the Macdonald commission that those ceilings be increased, and something we constantly address. Whether it is through pooling of corporate assessment or through some other means of providing funds to the assessment-poor boards, I think there is a tremendous consensus that it is a problem which has to be addressed. We refer in our brief to the need for a quality of educational opportunity.

Ms. Poole: If you are from Geraldton, I should perhaps mention that I should have declared a conflict of interest, as I think my husband is currently fighting an annexation case up there which will reduce your assessment base even further if he is successful.

I just wanted to say that you are probably aware that the Legislature formed and gave a mandate to the select committee on education last week. We will be having organizational meetings within the next few weeks. We will certainly be alerting you as soon as we have a framework in place and we would welcome your participation with our committee.

Ms. Nelson: I have already sent a letter congratulating you and saying I would love to take part in such a discussion.

Mr. Chairman: I am now going to recognize in order, Mr. Mackenzie, Mr. Harris, then Mr. Nixon, Mr. Neumann, Mr. Ferraro and Mr. Villeneuve. We have half an hour.

Mr. Mackenzie: I was intrigued by Ms. Poole's comment about why you have not identified the inefficiency in the system. I do not know whether it is a feeling that we can do away with language programs or that we do not need to face the continued request for smaller class sizes or whether we should have more or less portables, which would mean probably capital spending up front--I know I have schools with 37 portables in my riding--or almost a total lack of worker retraining programs that might very well be in the school system.

My experience and my feeling, from talking to the school boards in my town, is that the steady erosion in funding over the last few years has seen almost all the fat cut out of the system. Am I wrong or is Ms. Poole right, that we have all kinds of fat we can still cut out of this system given the cut in expenditures over the years?

Ms. Poole: On a point of order: I do not believe I said there was fat in the system. I was saying that had they looked at it to see if--

Mr. Mackenzie: It is the same thing another way, if you say: "Where are all the inefficiencies? Why are you not talking about them?" I thought it was a ridiculous approach.

Mr. Chairman: She asked about inefficiencies and the answer I heard was basically that it rests with democracy. Anyway, go ahead.

Ms. Wright: I am not sure we are going to comment too much further. It is just that we are scrambling for dollars as it is in education.

Mr. Sherlock: You mentioned rugs. There are very few rugs in our system. I am going to need one myself soon and I will have to pay for it myself.

Mr. Chairman: We hear some stories, I know in my jurisdiction, about large offices of administrators and large salaries of administrators, but presumably that will come to rest at election time, you are saying.

Ms. Nelson: I think also that when you look at the salaries, for example, of the chief executive officers of boards, the chief executive officer over an employee force of 10,000 people and an annual budget of \$450 million in the private sector usually gets paid a great deal more than directors of education get paid. I would say that turning out gadgets and machines is a less responsible position than turning out future citizens. I do not really think our senior executives are overpaid if they are doing their jobs well. It is our job to make sure they do their jobs well.

Mr. Mackenzie: In effect, have not the additional costs the local municipalities have had to bear really meant that we have been cutting fat out of a system--nobody is perfect; it is there--for the last several years?

Ms. Nelson: We have not been cutting out fat. We have been cutting out important things. I am still smarting over the fact that we cut out the free milk program at my own board. I happen to think that milk for children is a rather useful thing. I do not think it is fat, even if it is homogenized milk. I think we have been actually cutting back on things that are significant, not things that are frilly.

Mr. Sherlock: As a generalization, a few years ago the government set up a committee to try to assist school boards into a sophisticated management system for allocating the educational resources. It fell by the wayside because a vast majority of our resources are all determined in the collective bargaining process.

Mr. Mackenzie: Then inefficiency would have to look further at the kind of problems you have in class size or the programs that are there at this time.

Mr. Harris: I know you have a lot of speakers and I will not take a lot of time. A good presentation. Let me ask you a couple of things. It falls in line with the comment you just made that most of the costs are taken up in collective bargaining. Many people want the provincial government to pay 100 per cent of the education costs or 60 per cent or certainly increase--I doubt you would argue they should pay it all--but it has no control over any of those costs, certainly not as much control as you have as trustees over any of those costs. How do you answer that?

Ms. Wright: In some boards the cost of salaries is 70 per cent of the entire budget, so you are left with 30 per cent of your budget to operate your system, other than salaries.

Mr. Harris: I understand that. Yet the provincial government, which you are asking to pay more money, has no control over that. You have the total control over what the salaries will be.

Ms. Wright: Not necessarily. We experienced a nine-week strike in my county. Wellington experienced a 10-week strike. I believe that was settled by

the government, in excess of the amount of money that board wished to pay on those particular salaries. So even though we are in full charge at the negotiation process, we do have to follow the legislation. When it comes right down to it, we may not be in full control.

Mr. Harris: You make a good point. Mind you, the arbitrators do take into account what fellow trustees have awarded across the province over the last 13 years.

Ms. Wright: You could turn that around.

Mr. J. B. Nixon: I just want to make clear that it is the Educational Relations Commission, it is not the government. It is not the Ministry of Education that steps in and settles these. Is that not the case?

Mr. Parry: That would not be quite correct, Mr. Nixon. The ERC could make a recommendation not just to the government, but to the education community, to which it reports as well, that there is jeopardy in a certain strike and that students' education will be in jeopardy. The government, of course, must make the eventual political decision to do one or the other: end the strike and arbitrate it; or end it only and seek arbitration through an independent arbitrator.

Mr. Harris: This argument is often used by government. It falls a bit, I suppose, with the comments Mr. Nixon made, that was an argument used by governments. We are seeing the same thing in health care costs, where government is funding 100 per cent but does not have control over, in the case of the doctors, how the doctors use the system.

I can recall comments, and I do not have them written down, but they have always stuck with me, that when funds were increased to universities back in the 1970s, the first thing that happened was that professors got their share and then they all joined the fight to cry for better facilities and equipment.

I say this even though a lot of my campaign workers are teachers. None the less, I do not think many people argue that the chief executive officers are paid too much. Most of the argument I get is that it is everybody in between. Not many people think that starting teacher is being paid too much, but there is a feeling that there are a lot of people in teaching below management who are paid far too much, far more than industry is getting, far more than comparable people are getting. There is also an argument that if more money is put into education, the experience appears to have been that that group gets looked after first and then everybody joins the fight for more money. How do you answer that? I hear it a lot and I have been part of the process.

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Ms. Nelson: I think if you are talking about teachers who are not competent, there are procedures for getting rid of teachers who are not competent. It requires some guts on the part of principals and boards to do that, but if a teacher is doing his job, I have not heard anybody say he is overpaid for what he is doing.

Mr. Harris: You have never heard that?

Ms. Nelson: No. I have heard, and I think it is agreed by most people, that they are now well paid, but given the responsibilities they have, if they are doing the job properly, I am not sure what overpaid means. It does seem to me that for many years they were really quite grotesquely underpaid, and everyone recognized that, but I have not heard what overpayment is.

What we now have is a largely older and very experienced and highly educated teaching staff. Since you have grids on which people are paid, the more experience and the more qualifications they have, the more they get paid, and you have fewer young people coming in. The average salary is, of course, higher, but then the assumption is that you are paying for that experience in education. There could be some argument there perhaps, but given the fact that the average teacher's age is now in the forties, I think that is what you are seeing reflected in those salary scales.

Mr. Sherlock: Coming back to the premise of your question, if I could, we are not asking for 100 per cent or asking that the 60 per cent be restored, which the Treasurer is now indicating he may be able to do. There is no question that collective bargaining, as you will probably recall as a former trustee, I believe, is an extremely difficult part of the trustee's role.

Mr. Harris: A former unsuccessful negotiator. A former teacher too.

Mr. Sherlock: I am a former teacher and trustee as well. The teachers are an extremely well-organized and well-financed group and very difficult to deal with. You are suggesting that our track record perhaps is not so great. I would simply throw back for comment that we have had nothing to do with negotiating a pension plan. You can compare your track records. It is a very difficult job and we are doing our best.

Mr. Harris: The implication is that the pension plan is a burden on the educational system?

Mr. Sherlock: I understand a report was tabled recently that indicates there is an actuarial deficit that could be a burden on the province.

Mr. Harris: That is another group. Every actuary has a different figure. I think if you look at the pension plan, the superannuated teachers claim there are billions and billions of surplus, according to their actuarial studies, but some other actuary, paid for by the government, maintains otherwise. I do not know where that falls.

Mr. Sherlock: In real numbers, going back to 1975, the government of the day had to commit \$150 million a year for about 15 years to 1990. Subsequently, those payments were reduced, but it is a very expensive superannuation system.

Mr. Harris: I would like to ask two brief questions; I know you want to move on. With respect to the cost of education over the last 13 years versus inflation and the ceilings versus inflation, do you have those figures? Do you know what they are?

Mr. Parry: Would you repeat that question?

Mr. Harris: The cost of education versus inflation, the ceilings versus inflation as well, or I think the per pupil cost would be a fairer way of using it, so we will leave out increases or decreases in this instance.

Mr. Parry: I may not have the per pupil costs handy, Mr. Harris, but to get to one point of your question anyway, what I would have is the level of increase in operating expenditures from the province to school boards, a general global funding versus inflation.

Mr. Harris: I think it should be per pupil, because that way at least--

Mr. Parry: I do not have the figure with me. At this point, I have only the operating expenditures.

Ms. Nelson: The only list I have is a comparison between the total operating costs and provincial support and the percentages and the local support percentages. I do not have the inflation rate. That could easily be applied to it, however. I do not know if this list would be useful to you at all. It has a lot of scribbling on it, but I could get you a clean copy. Do you want it?

Mr. Harris: That is fine. Carry on.

Mr. J. B. Nixon: I am looking at page 8 of your presentation and I guess I am just trying to determine how much money you are suggesting is required from the Treasury to meet the real cost and achieve the 60 per cent funding level.

Ms. Nelson: Part of our problem in all of this is that there are certain numbers of situations where apples and oranges are compared, which makes it rather difficult, but on the whole we are saying that two things need remedying. First, there needs to be a significant adjustment upwards in the actual ceilings and, second, there has to be an increase in the provincial government's share up to 60 per cent of those approved costs. We do not yet have real numbers to go with that, but certainly estimates could be made.

Part of the problem is that at some points we are comparing things that are not comparable. What we need to do is to sit down and all be talking about exactly the same expenditures, agree on those and then work from there on both ceilings and the percentage of provincial versus local share.

Mr. J. B. Nixon: I do understand the proposals you are putting forward and the principles behind them; but I thought it would have been possible to say, "In our view, in order to achieve full funding of the existing programs and put the province at a 60 per cent funding level, we need X hundred million dollars," just to get an idea, because there is nothing here that says that. Frankly, there is nothing in here which indicates to me whether it is \$10 million, \$100 million or \$1 billion or \$10 billion. There is nothing there.

Mr. Sherlock: I am sorry. If we do not have the numbers available, I am sure they are available in the ministry's computer banks. They continually run models of these through.

Mr. J. B. Nixon: It does not help the discussion today. You cannot even give us a ball-park figure, Mr. Parry?

Mr. Parry: On page 8, a general figure that has been used--and it might be off on any day you speak of, depending upon what year you are looking at school board expenditures--just to reach the levels of expenditures boards are now spending would cost about \$1 billion. If you took the total value of

the brief, which is a lot more than the paper it is has been printed on, you would have to include in that the shortfall rate now in capital expenditures for both new pupil places and for renovations and repairs--that stands at \$1.7 billion--the total wealth of the brief, having done none of the completion, none of the programs mentioned on page 2, as Ms. Poole pointed out, would be approximately looking at \$2.7 billion, plus whatever it would cost to complete those programs over time. So, if I may, knowing the trustees have not had that figure in front of them, I settle on \$2.7 billion.

Mr. J. B. Nixon: That is the provincial contribution you are looking for.

Ms. Nelson: It should be increased.

Mr. J. B. Nixon: I understand that. I just wanted to clarify that.

Do you have any comments on Mr. Coward's report? Mr. Coward is a consulting actuary--who was a member of the pension commission, I note, appointed by the previous government--who, upon reviewing the superannuation benefits program, found that there was a deficit for the teachers' pension plan in the order of around \$5.5 billion or \$5.7 billion. That is in the superannuation fund. I realize that the level pension plan, which is separate from the superannuation fund, is in a small surplus.

Clearly, the deficit results, in Mr. Coward's opinion, from the fact that in 1974, when the fund was established, the government of the day decided that the payout to teachers would be made on a pay-as-you-go basis and that no reserves would be set aside for future funding of those pension obligations. Obviously, as the teaching body matures and enters retirement, the demands increase. The government has not yet made its policy known, because we have only just received Mr. Coward's report.

Do you have any comments on that and what you expect or anticipate the additional obligations would be that result from the full funding of that pension reserve?

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Mr. Sherlock: As a council, we have not yet had a chance to review the report. As individual members, some of us have had an opportunity to skim it. As I understand it, he is recommending the pooling of the adjustment fund, which deals with the indexing, with the basic pension plan.

Mr. J. B. Nixon: That is right.

Mr. Sherlock: As Mr. Harris has pointed out, their actuarial estimates are very large figures and very serious concerns. As an individual trustee, I would see it as a serious concern for the province to deal with.

Mr. J. B. Nixon: One of the recommendations he makes is that you put the superannuation fund together with the level pension plan, which funds all of the pension but for the indexation of a plan--

Ms. Wright: I am quite sure that the Ontario School Trustees' Council will be taking some sort of a position on that in the very near future and will be advising our people.

Mr. J. B. Nixon: I think it would be valuable, if I can just make

one final comment, for the committee and certainly for myself--I guess I would direct this to Mr. Parry--to get a breakdown of the amounts which you would include in that \$2.7 billion, what its components are, and attach a price tag to them.

Mr. Neumann: Just as a follow-up before I get into my questions, the \$2.7 billion was made up of \$1 billion in the shortfall in annual grants and \$1.7 billion in capital costs. That would be a one-shot deal to catch up all the capital projects in the province. It does not make sense really to add them together. One is an ongoing cost that would be there. Am I correct in understanding that?

Ms. Nelson: Almost. The \$1.7 billion, in fact, includes 25 per cent of the local contribution. The actual provincial contribution would be \$1.3 billion, so the total should really be \$2.3 billion, not \$2.7 billion. It is still rather a big amount.

Mr. Neumann: On page 5, you mentioned that some of the contributing factors to increasing costs in education were provincially initiated requirements. You left out the program some years ago to require individualized instruction and programming for children with special needs. Has that been a significant cost across the province, Bill 82?

Ms. Nelson: Are you talking about special education? Oh, yes. It is a significant cost, because it includes the quasi-legal proceedings covered under identification and placement review committees and a variety of things that have had to be implemented by legislation.

Mr. Neumann: The smaller classrooms for those kids and the individualized instruction.

Ms. Nelson: Yes. I think a lot of boards were doing that on their own initiative before. It has now been regularized across the province, but those are significant costs.

Mr. Neumann: Were there sufficient provincial funds supplied along with that?

Ms. Nelson: Is that a leading question? I think the burden of our song today is that there really have not been sufficient provincial funds for these things for some time, and we would like to encourage you to join us.

Mr. Neumann: You mentioned as well the impact of busing, students having to be bused out of their neighbourhoods. one pet peeve I have is that a lot of these special education kids, who in terms of the impact on their learning can least afford to be bused, are often the ones the school boards do bus out of their neighbourhoods to special classes. Have the school trustees done any study on that?

Ms. Nelson: Part of the problem there is that these children do not arrange to live in one school neighbourhood, and if you are going to provide a program, if you are going to have a separate class for them, you often have to draw them from several school neighbourhoods into one class.

If you can arrange to have them dealt with in a learning centre in their own school, then you do not need the busing. But for the children with more severe disabilities, you often do need to bus them, simply to get a sufficient number of them to make up a class.

Mr. Neumann: Just to help you understand why a number of us were mentioning the 100 per cent provincial funding, the previous delegation, the Federation of Ontario Cottagers' Associations Inc., recommended 100 per cent provincial funding. One of the concerns I have about that, even as a target, is the impact it would have on the autonomy of the school boards, the ability to make decisions.

Ms. Nelson: We have been recommending 60-40, because we do think there are local situations that need to be responded to locally. Even with local jurisdictions doing it, some of them are getting to an extremely large size, which makes responding, once again, a more mechanical process. If it were province-wide, I think you would really make a very insensitive system simply because of the size of the beast.

Mr. Neumann: From my experience, local government delivers programs much more efficiently.

Ms. Nelson: Local government is the best thing going.

Ms. Wright: May I add to that, please? I really do feel that local boards are sensitive to the issues and needs in their own community and therefore they do have to have that autonomy.

Mr. Neumann: So the line of argument is that we should be exercising more provincial control, but there is a problem with going that route as well.

Ms. Nelson: More provincial money.

Ms. Wright: More provincial money and less provincial control.

Mr. Neumann: Less control, and we get greater efficiencies.

Ms. Nelson: Certainly.

Ms. Poole: Could I just ask a supplementary?

Mr. Neumann: I do not want to lose my train of thought here. On the other side of the coin, we had a previous Treasurer of Ontario, D'Arcy McKeough, use the phrase that he was going to expose school boards and local governments to the "discipline of the mill rate." I believe that is when the start of the backing away from the Edmonton commitment was made. Has that worked in creating efficiencies?

Ms. Nelson: Not in our opinion. I think it has created a degree of uncertainty that has made it very difficult for us to meet our commitments as we see them. That sounds like a ringing phrase. I am not really certain of what it means. It sounds as if it is more in the realm of ideology than fiscal policy. It seems to me that local governments do attempt to be very sensitive and are subject--it is a lovely phrase--to the discipline of the mill rate in that they have to answer for it to their voters every three years.

Mr. Neumann: I think what he meant was perhaps he perceived that there was overspending in local government and in municipalities and that by cutting back on provincial grants, local governments, sensitive to the taxpayers, would eliminate the inefficiencies.

Ms. Nelson: Except that what has happened is they have simply had to raise the rates in order to pay for the programs their people want, to the

point where, in fact, some school boards are paying virtually 100 per cent of the costs of education.

Mr. Neumann: So whatever efficiencies were created have been created and we are now cutting meat?

Ms. Nelson: I have never seen a list of those efficiencies.

Mr. Neumann: So you question whether there even were any.

Ms. Nelson: Yes.

Mr. Chairman: Ms. Poole, very quickly, because we have two other questioners.

Ms. Poole: Yes. It is directly on the point Mr. Neumann brought out about the percentage of provincial spending. You mentioned that you did want the province to increase its share of spending to 60-40, but you have a doubt about going to 100 per cent because it might affect local autonomy. You can correct me if I am wrong, but I understand that right now, for instance, with the capital allocations, the province can give you your grant but it has absolutely no control over how that money is spent.

Ms. Wright: No, that is not right.

Ms. Nelson: That is not true.

Ms. Wright: All boards of education must supply the government with a list, a capital forecast, a five-year plan. Out of that list, they are allocated funds and those funds must go directly to whatever they are being allocated to.

Ms. Poole: But once the allocation is made, if you decided--

Ms. Wright: All the plans have to be approved.

Ms. Poole: Oh, no, that is not so.

Ms. Nelson: All the plans have to be rigidly approved at several stages.

Mr. Harris: It is actually the opposite.

Ms. Nelson: Yes.

Interjection: But it is a popular theory.

Ms. Poole: So there is, right now, a very rigid control by the province not only of capital allocations, but of all moneys given by the province.

Ms. Nelson: Yes. On the capital side, the approval process is extremely rigid and the approvals are the actual number of square feet per child, the installations that will be covered and the things that will not be covered. It is extremely specific.

Ms. Poole: And cannot be changed without further approval once you have the grant.

Ms. Nelson: That is right; going through the approval again.

Mr. Ferraro: I thank the delegation for the presentation. The only regret I have was mention of the Wellington school strike, which brought back terrible memories for me personally. Having said that, there are a couple of things I would like to say.

I want to identify the things Mr. Harris said about perception, without justifying my own personal opinion vis-à-vis remuneration of teachers, in particular. I also think it is safe to say that, to some degree, it is a general perception of a large segment of the population about all government employees, whether you are a fire-fighter, a cop or a politician. That is there and I think we have all heard it, be it right or wrong.

I suspect, as long as this committee exists, you people will be here banging on the door. You need \$2.7 billion but, quite frankly, I would be surprised if you actually thought you were going to get \$2.7 billion.

But I guess I am asking the question: Do you have a specific plan that you have presented to anyone, be he the Treasurer or whoever, vis-à-vis catching up on that gap, or do you actually think you can get \$2.7 billion in one year?

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Ms. Nelson: Are you suggesting a phased plan?

Mr. Ferraro: At least to try to catch up on the degree. Otherwise, you are going to be here next year asking for \$3.5 billion, which is probably--

Ms. Nelson: What we have suggested is that there needs to be an immediate look at the actual ceilings. They must be increased. Macdonald has suggested that lots of people, apart from ourselves, have suggested that the ceilings are inappropriate and unrealistic and need to be upped significantly.

Second, we have made very significant and detailed proposals with regard to capital funding, both for new pupil places and for the renewal and replacement of old buildings. We have an enormous stock of property in this province and we should not be letting it deteriorate for the lack of reasonable, cautionary spending, if you like, never mind anything glossy. We are not talking about carpets here; we are talking about roads, sewers, septic tanks and things like that. Yes, we have made very specific suggestions about that.

You should know also that many boards have become so discouraged at being turned down year after year that they do not even ask any more. Some of them are paying for things, where they have a local tax base, out of the local levy. Others are simply suffering in silence. They are now becoming aware that they should continue to ask for these projects. I suspect that if we went out to look, we would find an enormous list, which is not even here yet, of things that should be done, especially in the area of replacement, renovation and renewal.

Mr. Ferraro: The second question that I have--and it may be clearer when Mr. Parry submits the detailed synopsis--is about the 60 per cent level of approved costs as opposed to total costs. Do you have figures as to the distinction in dollar amounts, or are you going to give them to us?

Mr. Parry: I want to be as exact as I can be about that, certainly.

Mr. Ferraro: One last question I have often thought about--and I need some enlightenment on it--is, how often or to what degree--dare I say the words?--do school boards per se liquidate assets and subsequently apply them elsewhere? I am thinking, for example, of schools in areas where they are busing everybody in. Notwithstanding the fact that they get 95 per cent subsidy from the provincial government to bus the kids in, has it been proven that in an older established area the net benefit to the school board, the taxpayer and the children is greater by keeping that particular institution, when it may be old and so forth, as opposed to selling it and transporting that money, if you will, to an area where there is growth? Are there individual points of view on that or does the association have a general point of view, or is it even a real possibility?

Ms. Nelson: I think it varies very much from board to board. It would have to do a lot with concentrations of population, I think, where the economies would occur or not occur.

Mr. Ferraro: It does not happen very often, though, that a school board would sell a school?

Ms. Nelson: No; besides which, the province has a very rigid way of dealing with the liquidation of property so that we do not get our hands on the entire amount.

Ms. Wright: There is a very rigid rule for the selling of a school property, if you are not familiar with it. We have to go through every government ministry and get the OK from them that we can go ahead and sell it. Then if we do sell the building, part of the moneys go into a government fund, so we do not even have control of the funds that we receive.

Mr. Ferraro: Has there been at least some study by the association to look at the merits, or is just too frustrating, from an economic point of view?

Ms. Wright: I do not believe the Ontario School Trustees' Council has taken it upon itself to do that study.

Mr. Ferraro: OK. Thank you.

Ms. Nelson: Even member boards within our associations have different points of view about that, so I do not know that there is any kind of general opinion.

Mr. Villeneuve: May I also thank you for your very enlightening presentation. A certain event occurred on September 10, and there were a number of debates that occurred prior to that September 10 event, which was an election. I recall very distinctly being on a number of platforms where certain candidates were saying, "The government of Ontario is indeed paying 60 per cent of approved expenditures." By insinuation, that says that school boards are spending somewhere in the area of 15 per cent for nothing, according to someone in an ivory tower somewhere. For argument's sake, could you give us some of the expenditures being done by school boards that are not approved by the Ministry of Education or whoever is in charge of deciding what is an approved expenditure and what is not an approved expenditure?

Mr. Sherlock: In the operating area, it is all expenditure above the grant ceiling. There is a grant ceiling established on a per pupil expenditure per annum. On the capital side, when those capital allocations are assigned to boards, we present our plans to the ministry and not all of the costs are approved. We are running into unapproved costs on both sides. The majority of the costs, I would say, are in the salary areas beyond the current ceilings. The Macdonald commission is recommending that those ceilings should be increased, that the current ceilings are not realistic. The deficit of 15 per cent is probably mostly found in that area.

Mr. Villeneuve: This may well be occurring in areas where the teachers have quite a number of years of experience and are at the upper level of the scale.

Mr. Sherlock: Those costs are all pooled for our purposes, but the expenditures of the total budget of the board above the ceiling are the unapproved costs.

Mr. Villeneuve: In a large rural area such as the one I represent--our biggest town has 3,000 people--there is an awful lot of busing from point A to point B. For instance, where I live in a rural part of Ontario, there are probably five school buses going by the gate at home. Is there some encouragement, say, to have separate school boards and public school boards pool busing? I know that is a touchy point. What is your thinking and opinion on that?

Mr. Sherlock: In my own particular board, there is a lot of integration of routes. I think it is common across the province that the public and separate school boards are using joint bus routes wherever possible. We find it to be a heavy expenditure and try to economize wherever we can.

Mr. Villeneuve: I am one who very strongly supported the provision of milk in the primary schools, if not in the secondary schools. Would that have been, for example, an approved expenditure?

Ms. Nelson: No.

Mr. Villeneuve: That would be something that would not be supported by the Ministry of Education at the provincial level?

Ms. Nelson: I think that is very much a local board's initiative, any of those sorts of those programs. They are perceived as social services and would not be part of the approval, nor would a whole lot of things that fall into the general area of child care. There are a whole variety of things some school boards feel constrained to provide, because the need is there, which are not considered to be part of education costs. Those would certainly not come under the expenditure ceilings at all, and some of them are quite expensive.

Mr. Villeneuve: You are most enlightening here, that in 1975, 61 per cent of the total cost of education, approved or unapproved, was being supported and covered by Queen's Park, whereas in 1987 something in the area of 44 per cent of the total cost was being supported.

Mr. Ferraro: What was the 1984 figure?

Mr. Villeneuve: I am guessing it was 47 or 48 per cent.

Interjection: About 50.

Mr. Neumann: Darcy McKeough--

Mr. Villeneuve: Darcy McKeough must have been a very good man. He is quoted often.

Mr. Chairman: Debate will continue. You have a quick question, Mr. Nixon.

Mr. J. B. Nixon: It really is to a certain extent a personal question. I will just remark that when I was in public school in the late 1950s and in high school in the early and mid-1960s, most of my education was in a portable in public school and most of my education in high school was double-shifted because there was heavy demand for services. Now they are contemplating closing down the public school, and the high school has become a multi-use facility, day care, seniors' programs and so on. How much of that capital expenditure you would like will meet an immediate demand but will become unnecessary in 10 years ?

Ms. Wright: One of the problems we have with our capital grant issue is that the growth area is in the peripheral of the Metro areas where there were schools built. Because we are growing out, it is in those areas we have a growing need for the capital expenditures.

As well, the older buildings need the renovations and this is where we are falling down. The buildings put up in the 1950s are desperately in need of renovation now. If you have a school you no longer need perhaps for secondary education, you do have another need that requires funding for the renovations necessary to keep that building in use.

Mr. J. B. Nixon: I can appreciate that, that there may be renovation needs or capital establishment needs in Durham, Peel and so on. To a certain extent, in the latter reference in your brief to portables, I am wondering how much of that is due to a temporary demand for service as opposed to a continuing demand over a generation or two.

Ms. Wright: Are you looking at 20 years as being temporary?

Mr. J. B. Nixon: I am looking at 10 years. I am looking at the experience in my own community, in my own riding, and I frankly say I do not think I suffered because I was in a portable or double-shifted.

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Ms. Wright: But sometimes it is not the suffering in the portables; it is that you do not have the other facilities you can use for those children. For instance, if you have a school that normally accommodates 500 students and you have facilities such as washrooms and gymnasias for the use of those 500 students and all of a sudden you have an additional 20 portables, you do not have the facilities for those students who are housed in the 20 portables.

Mr. J. B. Nixon: I understand the problem and I realize it is very sensitive and subtle in many ways. I guess all I am trying to get at is

whether some element of the demand for capital expenditure is in fact a demand for a capital expenditure for a temporary purpose as opposed to a long term, and I am not sure how you would define that.

Ms. Wright: No, I am not sure either, except that I would say--you are right. We are not asking for the \$1.7 billion immediately; we would like that phased in. If it is phased in in a reasonable amount, I am quite sure the local boards would prepare to present the government with a program to show you the needs for the moneys that would be allocated as capital funds.

Ms. Nelson: I think there is a really serious wild card, in fact, two of them in all of this planning. No matter how careful you are with the demographics, you have to be concerned about classrooms and birth--who is going to give birth and when--and, second, immigration is a wild card you cannot plan for sometimes because you do not know where the latest group of immigrants is going to come from and to which system and to which municipality. You also do not know whether you are having an explosion among people who are going to have one child or among people who may be younger and are going to have several children. Those are things that are very difficult to plan ahead for.

Mr. Ferraro: Or even the people in Canada who move back to Ontario.

Ms. Nelson: Housing costs are part of the serious problem, certainly in the greater open area around Metro. People are being driven out because of the horrendous housing costs in Metropolitan Toronto, and that is causing a change in population patterns that has to be accommodated. It is too far to bus the children.

Mr. Chairman: We have moved past our allotted time. I saw Mr. Neumann's hand again, but perhaps, Mr. Neumann, you can ask your question after we adjourn the meeting.

Mr. Neumann: It was not a question. I was going to ask, in a similar vein to questions posed earlier, about the cost of the proposals. I would like a specific cost placed by someone on the elimination of the provincial sales tax. I have a rough figure here of \$50 million for education, but I guess the question is that if we are going to consider education, do we also consider other local public sector areas, such as hospitals, municipalities and public utilities?

Mr. Chairman: We will attempt to have that information from the ministry before we start writing our report.

Last year when we had these hearings, I remember the Association of Municipalities of Ontario won the first prize for seeking the most money. I think you are going to give them a run for their money this year.

Thank you very much. You have been very helpful.

Ms. Wright: Mr. Chairman, on behalf of the OSTC, I would like to thank you and your committee for hearing us this morning.

Mr. Chairman: We appreciate your coming and the time and effort you put into it. Thank you.

Before we recess, I should announce that the 11 a.m. presentation tomorrow, the Canadian Organization of Small Business, is cancelled. If it is

agreed to come at one, instead of having Mr. McLellan, we will have him come at 11 o'clock and then we will have a full lunch hour tomorrow. The clerk has undertaken to tell Mr. McCague, who said he was available any time tomorrow.

Mr. Ferraro: Will they be appearing another time?

Mr. Chairman: At the moment, no, but we will keep working on that.

The committee recessed at 12.15 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

PREBUDGET CONSULTATION AND TAX REFORM

TUESDAY, FEBRUARY 16, 1988

Afternoon Sitting



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Harris, Michael D. (Nipissing PC) for Mr. McCague

Poole, Dianne (Eglinton L) for Mr. Pelissero

Also taking part:

Polsinelli, Claudio (Yorkview L)

Clerk: Carrozza, Franco

Staff:

Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

From the Ontario Public School Teachers' Federation:

Kendall, David, President

Lennox, David, General Secretary

From the Budget Coalition from the Disabled Community:

McPherson, Cathy, Co-ordinator, Persons United for Self-Help in Ontario

Potter, Beryl, Head, Scarborough Advocacy Centre for Disabled Persons and
Their Families; Spokesman, Trans-Action

Sarlina, Bobby, Attendant Care Action Coalition

Worth, Patrick, People First of Ontario

Baker, David, Executive Director, Advocacy Resource Centre for the Handicapped

Individual Presentations:

Ginsler, Ernie, President, Ontario Social Development Council

Motz, Margaret, President, Social Planning Council of Kitchener-Waterloo

LEGISLATIVE ASSEMBLY OF ONTARIO
STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday, February 16, 1988

The committee resumed at 2:08 p.m. in committee room 228.

PREBUDGET CONSULTATION AND TAX REFORM
(continued)

Mr. Chairman: We have the Ontario Public School Teachers' Federation with us. Its brief was distributed in the large packet you received yesterday. Representing the federation are David Kendall, president, Doug Deller, first vice-president, and David Lennox, general secretary. Gentlemen, perhaps you would be so kind as to lead us through the brief and then entertain some questions.

ONTARIO PUBLIC SCHOOL TEACHERS' FEDERATION

Mr. Kendall: We appreciate the opportunity to meet with this committee again this year, as we did last year, to talk about elementary education, specifically, the funding aspect of it. A year ago when OPSTF appeared before this committee, we focused on two key issues: the provincial share of elementary and secondary education costs and the level of expenditures established specifically for education.

While the issue of provincial share of education costs continues to be of great concern to elementary teachers, we are leaving that aspect to the Ontario Public Education Network, which we are a part of. I believe they will be presenting on Thursday to the committee, so today we will not deal with that specific issue. We would like, though, to take this opportunity to focus on the question of the financial needs of elementary education.

Just over two years ago, we met with close to 100 MPPs to talk about our Blueprint for Justice action plan. We would be glad to share copies with those MPPs who have not received a copy previously. It essentially deals with the underfunding of elementary education as we see it.

If you look on page 2 of our brief, you will note a table and a graph which illustrate the history of per pupil grants since the current grant structure was established in 1970. In 1970, the grant ceilings were \$500 per elementary pupil and \$1,000 per secondary pupil. Since then, the grant ceilings have been increased on a percentage basis, which has served to widen the differential in spending levels for elementary and secondary students. Since 1970, elementary education has changed dramatically, but the increase in costs have not been reflected in the grant levels.

These changes include teacher qualifications. In 1973-74, the government mandated that each teacher must have a bachelor of arts degree. Therefore, our elementary teachers coming in from that date on had a bachelor of arts degree, as well as those practising teachers who also worked very hard on achieving a bachelor of arts degree, to the point where, at this time, fewer than 10,000 teachers in Ontario, in total, do not have their bachelor of arts as yet.

Also, on the reduction of pupil-teacher ratios, in recognition of the need to provide support services, boards of education hired resource people, consultants and so forth, in terms of dealing with the program and helping to assist teachers. However, what that did was cause an increase in class size because those people were taken out of the class. Even though the PTR decreased, the class size increased.

There have been program changes, specifically in special education, the Ontario Schools, Intermediate and Senior Divisions new curriculum guidelines, policies mandated by the provincial government as well as the individual boards of education.

The fourth area is enhanced facilities in terms of specialized programs, libraries and gymnasiums. That is an issue I will deal with shortly in terms of the change in the ground structure and the change in how schools are organized.

Again, if you look at the graph on page 2, you will note that for the two years, 1975-76, the differential in spending levels dropped. During those two years, the government initiated \$80 extra per pupil on grant ceilings for elementary education in recognition of those increased costs. That measure was not continued beyond 1976, and that differential, as you can see, continues to grow.

Recently, the government, in recognition of the disparity in funding, has awarded slightly higher percentage increases to elementary spending levels; you can see that at the bottom of page 3 and top of page 4. Last year, for the first time ever, the government allocated the same dollar increase to both elementary and secondary ceilings.

You will note on page 4 of the brief that we have quoted former Minister of Education Sean Conway, when he announced the grants and his decision to freeze the gap, the gap being that differential between elementary and secondary grant ceilings. The federation views this recent initiative to freeze the gap as an important symbolic step in terms of rectifying the traditional pattern of underfunding elementary education. We believe the government must now take more significant measures to improve support for elementary education. We therefore recommend that grant ceilings for elementary pupils be raised to the same level as those for secondary pupils without diminishing the latter. Our recommendation includes a three-year phase-in program. I would also like to point out that we have gained broad support across the educational clientele, across the province, in terms of our position.

On page 5 of our brief, we have cited comments from the report of the committee last year. We urge you to reiterate this support and make clear recommendations to the Legislature and to the Treasurer (Mr. R. F. Nixon).

In addition, following presentations by our teacher groups at the local level last year and this fall, we have 45 school boards in this province which have passed supporting motions, and many of those boards have written to the Minister of Education (Mr. Ward) in terms of our position.

The appendix to this brief lists motions of support from various educational groups, trustee organizations, in Ontario. We should note that we are encouraged by the government's statements, including those of the Premier (Mr. Peterson), on the importance of enhancing elementary education. Pages 6 and 7 of our brief have included examples of such policy statements.

We were also encouraged by the education initiatives that were announced in the election campaign last summer. Many of these initiatives have been long advocated by our federation, such examples as class size reduction, renewal of textbooks and learning materials, increased availability of computer hardware and software and programs for teacher in-service.

Expectations about improvements for elementary education were understandably raised following the election announcements. Likewise, we have been understandably disappointed with the actual dollar commitments in 1988. We have provided a comparison for you, on page 7 of the brief, of what was proposed and what in fact is true for 1988. While we believe that much of the \$61.8 million will go towards enhancing elementary education and will be welcomed by school boards, we are concerned that this money will not offset the need of school boards to receive above-inflation rate increases for basic operations.

In 1988, school boards will be receiving a 4.5 per cent increase in basic operating grants. The Treasurer predicts in his background paper, Economic Outlook and Fiscal Review, that the Ontario inflation rate will be 4.7 per cent. By allocating a specific amount to reduce class size in grades 1 and 2, the government has taken an important step towards addressing one particular staffing problem in elementary schools. But under current funding arrangements, school boards will have difficulty in hiring teacher-librarians to provide library programs or guidance specialists to handle the ever-growing counselling needs in elementary schools.

Curriculum changes, parental expectations for individualized programming and the integration of children with special education needs have all created a need for smaller class sizes and increased preparation time for teachers throughout the elementary grades. In order to truly implement the concept of the Premier of beginning excellence early in education, it will be necessary to raise per pupil expenditure levels to more realistically reflect the needs of elementary education.

If I might just take a moment to refer you back to page 2, there is another example, in 1970, when the grant ceilings were put in place. You can appreciate that 1969 was when the drastic reorganization took place in school boards, where they consolidated the smaller schools into larger schools. The grant ceilings at that point, \$500 for elementary and \$1,000 for secondary, were based on experience and what they knew about elementary education in 1969. We had the one-year benefit.

Therefore, the setup in terms of grants certainly did not accommodate or appreciate changes to larger school buildings, increased costs in terms of transportation and increased costs in terms of fixed libraries and gymnasiums in schools. I think it is understandable how the \$500 and the \$1,000 came about. The drastic increases in costs at the elementary level in the last 12 years certainly give clear indication, from our perspective, that the grant ceilings also have to be changed.

I am prepared to answer questions.

Mr. Chairman: Thank you very much. Before we entertain questions, Mr. Haggerty has a guest here he would like to introduce to us.

Mr. Haggerty: Thank you, Mr. Chairman. I think it would be appropriate to put it on the record. We do have a distinguished guest, a

member of parliament from Hong Kong, P. K. Yeung, who is also an educator in Hong Kong. He has been principal of one of the larger school sections in the Hong Kong area. He is also a member of the security forces in Hong Kong.

Mr. Chairman: Welcome, Mr. Yeung. I trust you will enjoy, if from a distance, the deliberations that we have in trying to determine the education dollar and how it should be spent. Thank you.

Ms. Poole: Thank you for your presentation today. Certainly, some of what you have provided has substantiated the Ontario School Trustees' Council presentation this morning. I would like to ask you a philosophical question, which you may not be happy about answering. I do not think the Ontario School Trustees' Council was too happy this morning. Nevertheless, it is something that does concern me.

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You have alluded in your brief to some of the specialty programs that we have introduced over the years and which have resulted in an increase in our education costs. I mentioned French immersion this morning. I could also add programs such as the gifted enrichment programs, heritage languages and so on.

Do you feel that we in Ontario education are trying to be all things to all people perhaps instead of concentrating on the necessities? While these programs in an ideal society are excellent--and there is nobody who supports the concept more than I do--are we we trying to reach out further than we have the resources to adequately deal with?

Mr. Kendall: Certainly, with respect to curriculum that is coming out of the ministry and out of the boards of education, I think we could well support the concept that the schools, principals and teachers are inundated by curriculum guidelines and programs that we have to offer.

Obviously, we all want to have the best for our children. Financing is an issue. I think you have to understand, though, that in the last 12 years, while we have increased the amount of programming that we have for students, the amount of money coming from the government in terms of funding education has dropped significantly, from above 60 per cent down to just above 45 per cent. So even though we are expanding in terms of programming, we are decreasing the amount of dollars coming from the government in support of programs.

Ms. Poole: I guess my question really relates to the expansion of those programs and whether it is perhaps unrealistic to think that we can do it all. For instance, my son is in the full-time gifted class. I think they have 16 students in their class and they have a lot of resources at their command. At the same time, I notice that over the last seven or eight years my son has not had proper textbooks. He has had to copy over puzzles and all sorts of things. He has had to copy them manually on to paper before he could answer the questions in his homework because they did not have sufficient for each student.

Do we perhaps have to start prioritizing? I am not against more government funding going into education. I think your submissions are excellent. I am just saying, should we at the same time be prioritizing a little more closely?

Mr. Kendall: I know Mr. Lennox wants to respond. Just before he does, there is no question about the importance of prioritizing what it is we want to introduce. But I think you have pointed out the fact that we have been trying to suggest to the government for a number of years now, that you have to increase the funding to elementary education. In a report introduced yesterday, again the author states that if we are going to make significant changes in the education system in the province we have to look at what is happening in elementary education.

For too long we have ignored elementary education in terms of the funding for smaller class sizes, particularly in the primary grades, or in renewed resources in terms of material resources, the need for computers, the computer hardware and software and the like. I think the importance is there. The programs are very important, but we have to fund them. They have been neglected for a number of years in terms of funding. That is why I think you find, from the trustees and from the teachers' federations, that we are talking about large sums of money. That is only because we have been neglected over the years, and that is why we have got ourselves into a problem.

Mr. Lennox: Let me go back to your philosophical question. Our president is most accurate on the funding issue, but I think you want the answer to the philosophical question; that is, is Ontario trying to provide too many various arrays of programs?

The answer I am going to give you, both as the general secretary of the federation and as a father, is that no, we are not. Ontario is a wonderful province in that it has identified a great variety of needs, be it the heritage language need, the French-language need, the Bill 82 needs. The fact is that at times they come at it in a bombarding, hodgepodge way. While we are just getting one thing going, we seem to put on three or four other extremes as well.

I think the critical issue is that we have not been able to get the ministry or school boards to focus on what I am going to call long-range planning, for example, the implementation of French-language instruction over five and eight years, so that they can ensure they have the learning materials in place, and the gifted programs so that they have the materials in place. But to put those in place needs funds.

What happens is that each time we introduce a new program which is a tremendous asset to the future of this province and a tremendous investment to the province, the fact is that these always start up on a shoestring. That is the best way I can put it.

What you find with your youngster in school in the gifted program is exactly what happened. What they did was they said: "The gifted programs can get along without the extra resources. They are gifted, obviously."

Ms. Poole: I should probably clarify that. My son did not have sufficient textbooks within French immersion--he has just gone into the full-time gifted this year--but maybe your comments extend to French immersion as well, because it was a new program brought in.

Mr. Lennox: My comments, in conclusion, do extend to French immersion, because that is the specific area in this province that we dropped in a program--we dropped it in from Sudbury through North Bay, right down to southwestern Ontario--and we dropped it in at such a speed that we did not have the materials ready for the teachers to use and the students to use. So

we have teachers out there today hand-copying material for tomorrow's classes, and that is a sad state when we are using our talented teachers' time to copy material that should be there in quantity for the classrooms.

Ms. Poole: To summarize in one sentence then, you do not feel that we are trying to provide too much, too many programs for too many people; what you feel is that we do not have sufficient long-term planning to make sure that it comes in at appropriate times and that we are appropriately prepared for it when we do bring in the programs. Is that accurate?

Mr. Lennox: I will not repeat your accurate answer.

Mr. Harris: I would like to follow up a little bit on what we are talking about. Even in your brief, I think, you say we need more funding in instrumental music, art and physical education. Are you talking about time there, or are you talking about resources in those areas?

Mr. Kendall: Resources.

Mr. Harris: The amount of time allocated to those areas is fine; you just do not have the resources.

Mr. Kendall: Certainly, when our teachers negotiate collective agreements in the field, we are looking at the whole concept of preparation time allowing teachers to prepare for their busy days with their children and the whole concept of using preparation time to bring in specialist teachers. I can recall when I started teaching we used to have specialist teachers, but as the money dried up and resources disappeared, so did those specialists. Even though the secondary level has the opportunity for students to take advantage of specialist people or teachers in those areas, at the elementary level, where we could make such good use of their expertise in terms of the specialists in those programs, we have very few of those people.

Mr. Harris: I guess my sense is that we are asking too much. Perhaps it is different people who are asking for different things out of the system that leads me to that sense. It was 20 years ago when I was teaching and 10 when I was a trustee, but still we hear that the basics are not being taught well enough. We hear that kids are not reading and writing as well as they did when I went to school or when my generation went to school.

I am not sure we will ever get away from that, but I sense that we are teaching many things to children now that we did not before. Computer literacy was not in my curriculum. French was not in my curriculum either, by the way. The emphasis on communication skills, oral skills and thinking skills that we put in now was not heavy in my curriculum. If we are putting more emphasis on different areas, we are either taking away from what many people consider to be basic or we are trying to do more. We are presumably trying to teach more.

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One of the things is that nobody ever comes and says, "We need more time to do it," particularly not your association, which I used to belong to, I want you to know.

Mr. Kendall: That is because we do not want you to extend the school day.

Mr. Harris: Why do you not want us to? Is it because you are worrying about your teachers having to teach more? Maybe we will hire more teachers to do it if that is your only worry. I think the school day should be looked at. I will tell you it is shorter now than when I went to school, and you have all these new things. My school day was until four o'clock. You can say I had an hour and a half for lunch, but most of us did not. We did other things in there. Whatever extracurricular activities there were in the public school took place between 12 o'clock and 1:30.

Mr. Kendall: The school day still is till four o'clock.

Mr. Harris: It may be, but I will tell you that if you look at the school buses going out, most kids are not there until four o'clock and most teachers are not either, I suggest to you, not in active participation teaching, whether it be extracurricular, with the students. They may be there in preparation or they may be there in other roles.

Has there been any work done on the school day? Is the school day based on how long kids can absorb material or is it based on how long teachers want to teach? I guess that is really the question.

Mr. Kendall: You are older than I am.

Mr. Lennox: I have two parts to the answer.

Mr. Harris: I am trying to be a little provocative.

Mr. Lennox: I know you are and I enjoy that from you. Since you are a former OPSTF member, we taught you how to speak articulately and ask difficult questions.

The answer has to be twofold. The length of time that a child can be there in a high percentage comprehension learning situation, I believe, is the majority of it. The other aspect of it is that I am not going to tease you about it. Teaching is very draining and very demanding. Yet for the teacher who is teaching the 300 minutes a day, to ask him to go an extra 100 minutes, especially at a time of the day when the kids are getting worn out and therefore more active--

Interjection.

Mr. Lennox: Yes. I was going to. I do not like to use the word "hyperactive" because that is a medical definition for that aspect. You can talk about staying another half hour or hour, but is it productive time or nonproductive time? That is the question.

The other aspects that you raised was with regard to the change in curriculum, the fact that you have computer literacy and French, for example. I will remind you of two things, because you and I are the same vintage of going to school. First, man had not landed on the moon when you and I went to school, and therefore we have got a great deal new knowledge and direction that we have to get our young people ready for the 21st century. Second, society in all ways has changed and said, "These will be the things that we need for children to have in the 21st century." Part of it was beyond the basics. Part of it was the cultural aspect. Part of it was the French language.

You go out there and check your community, with your constituencies today, and say: "Let us take a poll as to where it is coming from, because my children are going to be better able to get a job when they leave the education world for the world of work. That is why they need the French." It was not the school that generated the needs or the subject material, but society said, "School, you provide." Then the question came down when they said, "School, you provide." Then they said, "And by the way, we do not have any extra funds for you to provide it with."

Mr. Harris: You have given me, and I understand that, the teacher's side of it, but I find it difficult that a child of six, seven or eight has the same absorbing capacity, if you like, as somebody--I can tell you we are expected to absorb for about 100 hours a week. Are there any studies being done? Your contracts say how long you are going to teach and everything else, so if the school day is extended, presumably it will be with more teachers.

I understand that you may have a fear that the pressure will be to extend those, but I would like to see some information based on how much time the child can spend absorbing, because my sense is that it is less than it used to be, in a formalized way, and nobody seems to be looking at that. When I hear trustees and teachers, it all seems to be a reduction of the school day.

Let me ask one other question and leave it all out. I do not want to dominate the time. Does your association, the federation, have a position on French? Right now, because of choosing French immersion or not choosing French immersion, French is really an option in Ontario. I do not think it should be an option any longer. Do you have a position on that?

Mr. Kendall: We have a protective position in the sense of collective bargaining and the fact that our policy is that school boards expand in French only as long as they can accommodate teachers so that we are not in the situation of firing teachers to hire French teachers. I think that is a problem faced by every board of education across the province now in terms of finding qualified French teachers for the ever-expanding program. Many boards of education have been supportive of their own teachers in the light of that and have increased only at the rate they could in terms of retraining some of their own people.

Mr. Lennox: We do have extensive studies done on French, both core French and immersion French and, in immersion French, early, middle and late immersion French. The fact is that we do not have a definitive answer, as no one does, as to when to enter French immersion and what is the best option at that stage. Because boards have claimed that any one of those places is an acceptable entry point into French immersion, our federation does support both core French programs and French immersion programs as long as those programs are willing to provide a variety of services to the students so that the programs themselves, especially the French immersion, do not become elitist programs.

I understand what you are saying; you have to understand what I just said. I said our federation position is that we must be able to provide the services to make sure that every child may take part in those and may thrive in those, rather than if they have difficulties, they have to be removed. They must have the support systems so that they can meet success in those programs. I understand your answer, and that is why our federation has stated that concern.

Mr. Harris: Your federation would safely say that children nowadays should be, to some degree, computer literate. Would you say that?

Mr. Kendall: If they had the computers, yes.

Mr. Harris: But that would be a goal.

Mr. Kendall: Certainly.

Mr. Harris: Would a goal be that all children coming out of the Ontario school system be bilingual?

Mr. Kendall: It is a difficult thing to mandate.

Mr. Harris: You have not addressed that.

Mr. Kendall: No.

Mr. Chairman: Is that satisfactory, Mr. Harris?

Mr. Harris: Yes, except the first part. I really think that more emphasis should be put into how we are going to spend this extra money. What are the dollars? What are we talking about to equalize how many extra dollars over--

Mr. Kendall: We are talking about, over the next three years, in the phase-in process, \$365 million per year approximately. There are 1.2 million elementary students in the province.

Mr. Harris: After three years, that cumulative base would be a little over \$1 billion.

Mr. Kendall: Yes.

Mr. Harris: It is how you would spend that money, I guess, that I am asking in some of the questions. I will let others go ahead and ask and I am sure they will get to some of that. Really, one of the concerns I have is that there is nothing, when we talk about the school day, that talks about it from the perspective of the student.

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Mr. Kendall: Certainly, from our perspective and in our presentation, we are looking at reducing class sizes, much in line with what the government is supposedly going to do and hopefully will do in the next few years, and in terms of computer programming, computer hardware and software, in terms of resources, both human and textbook material resources, but particularly human, in terms of the specialists in areas such as music, gymnastics, library and so forth, actually to have our libraries growing, as opposed to many situations now where they are stagnated and not growing because of a lack of resources.

You have libraries that are virtually worth hundreds of thousands of dollars and the collections are not being renewed and maintained, because there are not librarians to do it. Children are not learning about libraries, because there is not someone there to teach them, and there are all of those kinds of things that are desperately needed and have been neglected for a number of years.

Mr. Chairman: I have Mr. Mackenzie, Mr. Haggerty, Mr. Neumann, Mr. Pelissero, Mr. Nixon and Mr. Ferraro, and we have 20 minutes.

Mr. Mackenzie: On page 7 of your brief--this may be a little bit unfair or a little bit rough--I think there was a recognition of the need for additional funding in terms of the election promises that were made, which total a little better than \$297 million. Unless we are going to see it all in some supplementaries in the next little while, it would appear that what we are getting in the first year is only \$61.8 million.

The question I would like to ask you, leaving aside the merits of the program, and I guess it is hard to answer my question and do that, is whether you would rather have the ministry say right up front, "Hey, you are going to get only \$61 million or \$62 million, and we are not going to fund," whether it is computer or French immersion programs, and understand that, whether it would be easier for you people to operate.

Mr. Kendall: From our perspective, we are most concerned, obviously, in terms of where the most money is being directed. Class size reduction is a concern of ours and should be a concern of everyone in society, because if we do not reduce those class sizes, particularly at the primary level, we will never get to the point of reducing the drop-out rate or producing students and clientele for the workforce who will be able to exist and survive in the workforce when they get there.

I think in terms of all of this I have seen some indications we do need to specify the money so that it is not put into areas that could possibly wait for expansion. I guess French is an example, or the gifted enrichment, those kinds of programs that possibly could be expanded at a future time. Unfortunately, you are in a situation of prioritizing again because of so little money being expended. We were hoping, as a federation, as an organization, as a group of teachers, that the government was going to implement the full program as originally promised and not as a three-year phase-in.

It is a Band-Aid approach, as I am sure other authors of other papers have mentioned. That is the unfortunate circumstance we are in, and we recognize that the trustees are after money for capital funding and it is desperately needed. We have buildings that have not been maintained out there for many years because of a lack of funding. We have programs that have not been maintained or expanded because of a lack of funding, and that is the problem that we all have to wrestle with in society. If we do not make that ultimate goal, that ultimate objective of putting in large sums of money, much more than we are now, we will never be able to pull our system out of that situation.

Mr. Mackenzie: I understand that, nor do I disagree with it. I am just wondering, in hard, practical terms, if you could plan a little better if you knew exactly what was coming and what was not coming. In other words, I am questioning the honesty of the commitments that are made and then not followed through on. Would the obvious needs, or what you see in terms of the education system today, just mean that you would go ahead anyhow?

It seems to me you are always expecting and not getting, and we seem to have had a crisis steadily over the last few years. My feeling is just that we are not getting a very honest pitch from the government.

Mr. Kendall: We have had a crisis for over a decade. Certainly, we hope and we expect to see at least the \$62 million. We hope you people will be able to convince the government and the Treasurer (Mr. R. F. Nixon) that much larger sums of money have to be initiated and implemented now before we do lose that fight to educate our children. They are our most important resource in the province and they need and deserve that support. Again, it is the more than a decade of neglect that has caused this situation, and we have to take immediate--

Mr. Mackenzie: Would it not make life easier or be a little easier in terms of your planning if you were just told up front, "We are not going to give you this; you make do with this," in terms of the programs?

Mr. Kendall: There is no question about it. If they do not give it, we will exist as we always have, but we cannot produce the kind of product that parents, the community and the general populace expect.

Mr. Chairman: But you would still be here asking for it.

Mr. Kendall: Certainly. We will always be here asking.

Mr. Haggerty: I was looking at page 2 and I thought I would make a couple of comments on the graphs labelled, "The growth of the Underfunding of Elementary Education." I was looking on the left-hand side of the page, 1986 and 1987. The number 911 comes up. Of course, you know what 911 means if you want to dial it. It means: "Help. Emergency. Help right now." I thought I would bring that to the attention of the committee.

I wanted to follow up on the comments of the other colleagues concerning French-language education in our educational system. I am fortunate enough to have a grandson who is in elementary school now and his first introduction to the French language will be in grade 4. I am concerned about that, because if you are in French schools, the youngster gets French the day he goes to school. So you have about three or four years lost.

If you look at the end product we are looking for, and we talked about a bilingual country, then yes, 15 years ago or 10 years ago, the pendulum was to the public school system. Now that pendulum is swinging back and there is going to be an imbalance. The end product is there. When you look for jobs in the Globe and Mail or even government jobs advertised in Topical, ads say, "French and English both." I feel if we do not improve the French language in the public school system and even the secondary school system, many of those youngsters going through the school system will never be able to get into good employment, jobs or vocations that may be out there for them.

I just think that somewhere along the line the committee should be giving some direction to the government. We talk about equity within the educational system. It must apply in all the different school sections, the separate schools, the French separate school system and the public school system.

I just think what happened when we had the Hall-Dennis report. I happen to come from an area from which much of the study was taken; that would be the elementary school, the senior public school in Ridgeway, Ontario. The guest here today from Hong Kong has two of his children in Niagara Christian College on Niagara Boulevard. It is a private school.

When my daughter went through the educational system, at that time we had new mathematics and the open-school concept. You came along and said, "Each one of them has 45 or 48 subjects." As soon as there was a challenge there, if they were not doing that well in one thing, they could go to another one. That is the way the system was built a few years ago. I hope they never go back to that, because there was no discipline in the educational area.

Mr. Chairman: I think the federation has said it does not have a position on this. That does not mean we cannot--

Mr. Haggerty: That is right. All I am suggesting is that I had to pull my daughter out of the public school system and send her to Niagara Christian College. If I had not made that decision, she would probably have been one of those listed as unemployed, a drop-out from high school. She graduated from Niagara Christian College, because there was someplace along the line where somebody was out there willing to help her in the educational system. Mr. Mackenzie was right.

My grandchild today spends about three hours travelling on a bus and his school hours are from about 7:40 a.m. to about 4:30 in the afternoon. There is just a limit to what they can absorb in that length of time.

Mr. Chairman: Do you have a question?

Mr. Haggerty: The question, I suppose, is that I am looking to go back to the old-rule schools, the eight-room school or the smaller classrooms, which were very acceptable at that time. I am talking about rural schools and I am going back to the 1960s now because I was a trustee in one of them. I see the changes there and I wonder if we have really gained anything by it, because I know the hardship for the teachers out there that something is not there.

1450

Mr. Kendall: First of all, I just point out to you that our \$365 million per year over the next three years, the projected figure, is for all elementary students, whether they are in the separate school or public school system.

Mr. Haggerty: That includes the total?

Mr. Kendall: Yes.

Mr. Haggerty: So you are looking at the public figure as--

Mr. Kendall: Approximately 1.2 million elementary students in the province in all sectors, either public or separate school systems.

Mr. Haggerty: The same problem exists in all the three school areas then?

Mr. Kendall: There is no question about that. In terms of whether it is better, I guess with the consolidation we were able to offer more and different programs to students. I do not know how else to argue that. Everybody likes to have a community school and no one likes to see students bused for an hour, an hour and a half, two hours a day one way, but I guess that is again another part of the underfunding business. Boards of education have to tighten up in terms of their programs and what they can offer.

Mr. Haggerty: Would you say, particularly in the public school system with its kinds of boards of education, they are overstaffed in that area and, with the salaries that are paid for administrators in that area, the bureaucracy that is built in is too large? Would you suggest that, as a teacher?

Mr. Kendall: I would not suggest that at all.

Mr. Haggerty: Have you done any studies? Surely you must have had some difficulties with the system on that, because what I receive from them is that if they would only take some of the dollars that they put at the top and put them down at the lower end and apply them to the education system, we would do very well.

Mr. Kendall:: I think that is the whole system of government that you have. You create bureaucracies, and it takes so many people to operate those systems. I am not sure that reducing the number of people at those levels is going to help the system at all. From our perspective, we are trying to deal with the current teacher-student relationship and not the teacher-administrator relationship. We recognize that the boards have people in board offices, and they are presumably necessary. The trustees support that, and as a former trustee you would know that, but--

Mr. Haggerty: It comes back to your opening comments. You said teachers spend too much time having to make copies of certain documents of literature or worksheets and so on. Surely there must be somebody at the top who can run these off. If they do not have enough textbooks, they can run this stuff off.

Mr. Kendall: I think you missed the point. The point was that we need the money to have the resource material there so that they do not have to copy them. If you look at the cost of copying, it would be much cheaper to supply the materials than to do the copying. We are forced into these situations. It is cyclical in the sense that it just keeps going around.

Mr. Chairman: I think Ms. Poole made a comment about her son doing some copying.

Ms. Poole: Actually, he was doing it manually, but I think what Mr. Haggerty was referring to was that if teachers had to do the Xeroxing, why could administration not do it? I think you have rightly pointed out that it would be far more expensive to Xerox the textbooks than it ever would be to order them wholesale.

Mr. Kendall: When you talk about the cost of materials today, a textbook at the primary level today is probably \$40, and there has been a rapid, drastic increase in the cost of support materials in terms of textbooks and material resources. The funds are not there, so teachers continue to exist with textbooks that are well outdated, falling apart, whatever.

Mr. Neumann: I have been dying to ask the question, because in the question Mr. Harris asked the trustees this morning, I think he indicated he suspected that in the educational system, between a starting teacher and the chief executive officer or director, anyone in between there is overpaid. Do you share that view?

Mr. Kendall: Not at all. Underpaid would be appropriate.

I can only suggest to you now, recognizing that we have been going through a period of declining enrolment and we are starting to move out of that now with the mini baby boom that we have been into in the past couple of years, most boards of education, except I think one or two in the far northwestern part of Ontario, are hiring and looking for teachers.

Why is it that the Ministry of Education and my federation in particular are searching for ways and means to get into high schools with programs to encourage students to look at teaching as a reasonable career choice? Particularly from my federation, representing male elementary teachers, statutory members by law and by the Ontario Teachers' Federation bylaws, which I am sure you have heard about before, we are very conscious of the fact that the number of male role models in elementary schools is decreasing at a rapid pace to the point that in the very near future, if we do not change that, then we are not going to see the male role model in elementary education.

In particular, we encourage our people to move into primary education even and that is not the domain for female teachers. In fact, it is important to have men there also. But students look at the kind of training they have to go through and the recent teacher education review, where some organizations would recommend longer time periods and reduce salaries to begin with. If we cannot attract them now because of relatively poor salaries, how will we ever attract them in the future? That is a difficulty we have to face.

Mr. Neumann: This morning the trustees indicated that it would cost about \$1 billion a year to reach the target that they recommended of provincial participation in funding at 60 per cent level. You are indicating that it is going to cost \$300-odd million to narrow the gap.

Mr. Kendall: Over three years, \$1.09 billion. Just over \$1 billion in three years.

Mr. Neumann: In trying to determine the cost to the province, do we add those two figures together or can they be blended?

Mr. Kendall: I think the trustees were coming from the perspective of capital funding.

Mr. Neumann: No. This is operating costs to bring the provincial participation to 60 per cent.

Mr. Kendall: I think there is some combination there, depending on what you are looking at, there is no question about that. There is no question that we are talking about a lot of money. The trustees are and the federations are, because I have to stress to you again that it has been neglected. If you look at the funding, it has dropped significantly in the last 12 years.

Mr. Neumann: I do not know where we get the answer, but if we were trying to achieve both targets, would we be stacking the figures or is there some lower figure?

Mr. Kendall: It depends how you would use the money that the trustees are talking about. I think they are talking about some of the same things we are talking about.

Mr. Kozyra: A couple of questions. First of all, do you have a barometer or measuring stick to tell us where Ontario stands in relation to say some of the best education systems in the world? There was a time 20 years

ago when that label was applied to Ontario education. Are we still up near the top or are we falling back? Is there a way of telling?

Mr. Kendall: David may have an answer. I believe in the most recent survey across Canada, Ontario's per capita spending is one of the lowest.

Mr. Lennox: You are asking about the quality of education or the dollar spent on education?

Mr. Kozyra: There is not always that relationship between dollars and quality. I am asking about quality, which is more difficult to assess.

Mr. Lennox: There is not a direct correlation. The latest things that I have seen come from several sources. One was a study done by the Ontario Secondary School Teachers' Federation in comparing Ontario secondary school students to other students across Canada. They used several criteria, math and science being two of them, as well as general knowledge. The study reported that Ontario students stood very well across the rest of Canada, if not in one of the top provinces.

I have not seen anything to compare us, as we have in the past, across Europe, the United States, Asia, in that situation, but I know when we get into such areas as mathematics that Canada is portrayed as being a very good education system. I have never seen an Ontario breakdown in that.

Mr. Kozyra: Both my wife and I spent more than 20 years in the classroom, she in elementary and I in the secondary. I must agree I always thought from what she said and what she did that hers was the tougher job. In retrospect too, I think the job has become much tougher over the 25 or so years I was exposed to it. I am simplifying, but the standard was that you had to be an expert on the subject material and a disciplinarian and a pseudo-parent. On top of that, now the demand is that you be an expert on the rapidly changing curriculum. You are expected to be a psychologist, a social worker, a special needs supplier and a legal specialist to handle the potential law suits and so on.

1500

I am wondering what the federation is doing to protect the teachers from this new onslaught of demands that really have come to bear on them much more in the past 20 years, because I think there is a great propensity for burnout. I am wondering what you, as a federation, are doing to offset some of those things, because I do not think just extra workshops and becoming a little more expert on these things is the answer.

Mr. Kendall: We continue to come to committees such as this and voice our concerns and our plea to increase the support in terms of funding to the education system. There is no question about it, society has changed and schools have become the social conscience of the community. Teachers have accepted more responsibilities in those areas and I guess they do so willingly to the best of their skills. At the same time, you are getting to the stage, I think, in all of the questions that have been asked today, that this cannot continue to happen. At some stage there has to be a breakdown in the system or something has to happen to bring about a change. We are hoping that this committee, particularly when there are so many former teachers and trustees around, will be very supportive of increasing the financing.

Mr. Kozyra: Let me just say that I am supportive of closing the gap, because I see that in one bold move we could effectively improve three significant segments. If we go that \$360-million-per-year route, we would close the gap between the elementary and secondary, as one objective. If you direct it into the lower grades, you could supply a good portion of those 4,000 teachers and also close the gap on the 60 per cent. Personally, I am in favour of that and will be putting my two cents' worth in.

Mr. Kendall: It is an important start in terms of what we are talking about in grades 1 and 2, but do not forget there are the kindergarten programs and grades 3 to 8 that also have to be supported. Obviously, the start is there and we hope the \$62 million turns out to be \$300 million rather quickly. Just think what could happen in Ontario in the education system if we could afford to put \$1 billion into education next year, particularly at the elementary level. What a boost to education and to the province.

Mr. Neumann: We also have to think about health and housing.

Mr. Kendall: There is no question about that, but certainly if people are not educated, health or housing might not be a concern to them at that point.

Mr. Mackenzie: Even living up to the commitments would help.

Mr. J. B. Nixon: I have two quick questions. Would you be able to provide to the committee a breakdown of the various component costs in that \$365 million per year? Not right now. Perhaps you could leave it with the committee, so we can save time.

Mr. Kendall: If you take the \$911 multiplied by 1.2 million, I think you will come out to that, somewhere around there, which we are provided.

Mr. J. B. Nixon: What is that \$911 going to mean? What sort of extra service are we going to get? If you do not have it now, I would be happy if you just supplied it to the committee.

Mr. Lennox: You are not talking about the breakdown of how we get the \$365 million. You are asking about the \$911 and, if we close the gap, what will that provide? Or is it, how is that generated now?

Mr. J. B. Nixon: What will it provide?

Mr. Chairman: It is supposed to be closing the gap.

Mr. Ferraro: I have a supplementary which goes right in with that.

Mr. Chairman: Will you be able to provide us with that at some future time?

Mr. Lennox: We certainly will get back to you for clarification if we have missed your point, but we can provide that to you in writing, yes.

Mr. Ferraro: Coupled with that, I would be interested to know, quite frankly, what is the distinction now between the salaries of elementary school teachers and secondary school teachers?

Mr. Kendall: They are basically the same. We recognize 78 boards across the province. We have parity in salary in about half of those, around 35.

Mr. Ferraro: If you were able to get \$365 million over three years to bridge that gap, how much of that would go towards salary parity, if any?

Mr. Kendall: Very little, I would think. As I say, we have about half of the districts that have parity and the others vary anywhere from \$1 to \$150 apart. It is that significant, certainly to us.

Mr. Ferraro: I guess really what I am trying to get at to some degree, because you talked about it earlier, and I have a legitimate concern about the lack of male role models in the elementary sector, I was trying to get at whether it was monetary to some degree.

Mr. Kendall: No, not at all. These days men and women are paid the same, based on qualifications, in the elementary panel.

Mr. Ferraro: I guess the other concern I have, and I will end with this, Mr. Chairman, and maybe you will want to comment; for me, personally, I do not think there is enough physical education taught to our kids.

Second, I am grateful to those teachers who get involved in the extracurricular aspect of it. I am of the mindset that I learned just as much outside of the classroom as I did in it, particularly involved in sports and other cultural things. I think there is almost a hell of a good argument to pay teachers extra to do that, quite frankly.

Mr. Kendall: We will support that.

Mr. J. B. Nixon: One final question. Are you aware of a recent report by a fellow named Laurence Coward, commenting on the unfunded reserve in the public school teachers' superannuation benefits, in the amount of approximately \$5.5 billion unfunded reserve? Have you any comments on it?

Mr. Kendall: We know that by the year 2008, I believe, it will reach somewhere around \$5 billion.

Mr. J. B. Nixon: It requires funding. Do you have any comments on it?

Mr. Lennox: It is under study at our federation since it was released as of last Thursday. Our federation, along with all the other federations through the Ontario Teachers' Federation, will provide a response once we have studied it.

It is not that we were not aware that there was going to be a problem with the Superannuation Adjustment Benefits Act fund in the future. We are surprised that it dropped out of the blue at us in a very immediate sense, with the Treasurer (Mr. R. F. Nixon) saying there is going to have to be a very immediate, large reaction taken. I think it is more a matter of the unexpectedness of it, from a proximity point of view, rather than we were not aware that at some day we were going to have to ensure that the fund was more self-sufficient and, in fact, had a balanced portfolio to it.

Mr. J. B. Nixon: You are aware that the Pension Benefits Act in Ontario says that every pension fund shall be fully reserved, but the superannuation benefits fund was exempted from reserve requirements in 1974. I

guess it made everyone take a deep breath when they saw the extent of the unfunded reserve. I just wonder if you have any comments on it.

Mr. Lennox: I think until we have studied the impact of the statement, with regard to both the main fund and the superannuation adjustment benefits fund, I will reserve comment on it, save to say that, yes, one of the most interesting professional groups in the province happens to be the group called actuarial individuals and every three years we find out surprises from actuaries.

Mr. J. B. Nixon: Your actuaries tell you that your level pension plan was in surplus. I trust you accept that.

Mr. Lennox: They may be conservative.

Mr. J. B. Nixon: So is Mr. Coward.

Mr. Chairman: With that, we are going to have to call this to a close. Obviously, you have a number of friends.

Mr. Harris: I think Mr. Neumann indicated that the member for Nipissing said teachers were overpaid. I think if he checks Hansard, I told the trustees I have heard that allegation made by a number of people and asked them if they agreed, and how did they answer that allegation. I know these gentlemen very well and it is primarily for Mr. Neumann's benefit that I raise it.

Mr. Chairman: All right, point taken. In any event, you have former teachers, obviously all over the place on the committee, so you have got a lot of either friends or people who could see through your brief.

Mr. Villeneuve: And they have all taken a cut in salary to come here.

1510

Mr. Chairman: They have all taken a cut in salary to come here. We appreciate your involvement and we will obviously be considering very carefully when we do our report to the Treasurer. The Treasurer has people listening today.

Mr. Kendall: We did bring extra copies. If someone has not received Blueprint for Justice, we would be more than happy to leave a copy with you.

Mr. Chairman: There are four members here who were not here in the last Legislature. Perhaps you could leave it for them.

The next group we have is the Budget Coalition from the Disabled Community. They have presented us with a brief, which is exhibit 16. It was filed yesterday in your packet.

While they are getting settled, I just thought I would report to the committee that there was an article in the Globe and Mail this morning with regard to travelling committees. You should be aware, if you do not count the consulting service that we have retained, our budget for our trip out of the country is \$14,476 and it is the least expensive budget of any of the four committees that are going out of the country. We are paying another \$7,500 to the associates to do the work that we feel cannot be done by the Canadian embassy.

The Budget Coalition from the Disabled Community. We have in front of us Cathy McPherson, Beryl Potter, Patrick Worth and Bobby Sarlina. We appreciate your attending in front of us today. We have your brief. Perhaps to start with, you might want to lead us through it and highlight those areas that you want us to consider.

BUDGET COALITION FROM THE DISABLED COMMUNITY

Ms. McPherson: On behalf of the coalition, we would like to thank you for the opportunity of presenting our points of view.

Mr. Chairman: I am sorry, you are?

Ms. McPherson: I am Cathy McPherson.

We are a coalition of coalitions and we represent a broad range of groups, which I think you will notice if you flip to tab 2. You will see a number of the coalitions that we represent.

Patrick on my left here is with People First, which is a self-help organization of people who are labelled developmentally disabled. I think Beryl Potter needs no introduction at all. Myself, I am from Persons United for Self-Help in Ontario. Bobby Sarlina is representing the Attendant Care Action Coalition.

What I think we will do is each take some of these topics that are in our brief and talk a little bit about them.

The main reason we are here is that we are very pleased to see the government's commitment to disability issues, both in the election and from the speech from the throne last year. Our concern is that there have been a number of task forces, and I think many of us feel we are at the point where there needs to be made a financial commitment to those concerns.

Has everybody got the report?

Mr. Ferraro: No. Do you have extras?

Ms. McPherson: You can borrow mine, if you want.

If you look at tab 2, that is where the organizations are. Our particular brief is the on first tab, and then we have a lot of background information in the rest of the tabs, so that will help you out a little bit. Have we all got our reports in front of us?

Just to sort of go through the point again, I think all of us here are very pleased to see the growing awareness and the commitment of all parties and the Liberal Party in the speech from the throne and the recent election campaign.

Our concern is that there have been a number of task forces and public reviews of programs affecting the disabled in the last few years, and we are now at the point where we would like to see a financial commitment reflected in this budget to those programs. So we are here today to talk about some of our concerns. Of course, the points we are making are not all the points we could make to you. It is basically a brief overview. I do not think you should feel that we are by any means comprehensive in touching on all the issues that

affect disabled people, but we have focused on about four of them here and will just talk about them now.

Maybe we can start off with Beryl Potter to talk about transportation.

Mrs. Potter: As we all know, there were a lot of promises made during the election on transportation; \$84.4 million was promised to improve transportation for the disabled and senior citizens. However, we find the transportation is still very inadequate. While transportation may not be the most important issue, it is the overall issue, because without transportation, none of the other programs is much good. We have to have transportation to get us there.

A lot of promises, as I say, have been made for the improvement of transportation. We look at Metro Toronto and think: "We have a great system here. What are they complaining about?" But even in Toronto there are still thousands and thousands of people who are not being accommodated. When they do open up the criteria to make it allowable for the invisibly handicapped to be included on the specialized service, the Wheel-Trans, it is going to explode. They will not be able to accommodate the people.

In December alone, in one month, there were 60,000 rides requested. I am not talking about specified rides for workplaces, but just regular rides. There were 60,000 requests and 7,000 were rejected; this is just in one month. It may not sound a lot when you are talking into the millions, but it is certainly a lot when the people are literally locked in their homes, when they are told, "We can take you to your job or we can take you to the hospital, but the problem is we can't bring you back," or, "We can bring you back but we can't get you there."

There are a lot of people not qualified to ride on the system. If they are epileptic or developmentally handicapped or senior citizens who are not able to use the transportation, they are not being accommodated at the moment. There are a lot of people up north who have no transportation whatsoever, in the small rural areas.

We have been fighting for transportation for a long time. There are improvements, but we cannot let it stop there. It is very important that we get this transportation problem seen to and addressed immediately. We have tried to do this through the memorandum of agreement that we are presenting to the Ministry of Transportation. Hopefully, a lot of the members have received it. If not, we will make sure you all do.

We are looking for a commitment, with a timetable. We are looking for total accessibility. We feel that disabled people, their families and everybody else pay taxes and it is their tax dollars that pay for the conventional system. I feel we have paid a pretty good down payment on a system we are not able to use at the moment.

I guess that is all. I could on a lot more with transportation, but I think I had better ease off.

Ms. McPherson: OK. Bobby, maybe you would like to talk a bit about the attendant care.

Ms. Sarlina: My name is Bobby Sarlina and I am speaking on behalf of the Attendant Care Action Coalition and persons who are in need of expanded and more flexible attendant care programs.

I just want to talk a little bit about the Attendant Care Action Coalition and where it evolved from. It evolved during the spring of 1985 to try to resolve a crisis surrounding the uncertainty of the Ministry of Community and Social Services order-in-council arrangement of funding. This was basically individualized attendant care.

The Attendant Care Action Coalition submitted to the ministry a paper, Options for Independent Living Assistance, with favourable response. After that, the Attendant Care Action Coalition also made recommendations in a paper proposing and requesting an individualized allowance for attendant care. In that paper, there was also the concept of brokerage. There was a request for a pilot project. We are now waiting for approval.

1520

I have been in the attendant care system now for 10 years and I am finding it is not flexible in terms of work. It is not mobile. I just was able to obtain a job with the city of Toronto, and I am having problems in getting attendant care in the workplace because I need help with various things in my job. Not only that, there are also changing needs of people. The attendant care system now is not mobile enough. In the apartment building there are not enough hours. There are many programs, but basically there are not enough hours. It is not mobile enough for people who need the services.

I just want to read something here. "A 35-year-old man lives in a chronic care hospital in a room with three other men, all of whom are over 75 years old and one of whom is 90 years old. None of his room-mates is as mentally alert as he is. He is depressed and living in almost complete isolation. There are no attendant care services available to enable him to live in the community."

The government has committed to expanding home care, i.e., short-term, services across the province. What is required is a long-term attendant care program which would allow people to leave chronic care hospitals and nursing homes. This is just another aspect.

Enormous resources have been found to expand chronic and nursing institutions, but very little has been done which would allow people to remain in their own homes. This cost-effective alternative is what disabled people have been demanding for many years. I think basically attendant care programs need change and expansion at present to fulfil needs in terms of work and family. Trying to establish new support service projects is very difficult.

That is about it.

Ms. McPherson: Maybe we can encourage the members of this committee to ask questions after the presentation; or if you have a burning issue, you are welcome to interrupt if you feel it must be answered right away.

I would like to talk a little bit about assistive devices. I am sorry our president is not here because she really is a lot more versed in this than I am.

I will just read you this example, which is true actually. "A 45-year-old woman in Kingston is not eligible for the assistive devices program. She requires a leg brace, which she cannot afford. Without a brace, she is reduced to crawling around her apartment and cannot leave her home."

The government has made a real effort to fully implement the assistive devices program. This has been promised for a long time. Logistical problems, due in considerable measure to underfunding the program's administration, now threaten to delay implementation. The government is urged to make necessary resources available and to overcome the difficulties which have arisen.

This example happened before the announcement that the assistive devices program was being expanded. Dealing with people around the province, we hear many heart-rending stories of people who really are struggling to survive. These assistive devices are so essential to any kind of independent living. I think you will all agree it is pretty degrading to have people crawling around in their homes because they cannot afford devices.

Not so long ago, many of our members used to sit in front of Dominion Stores and collect tapes, beg for Dominion Store tapes, to buy wheelchairs. Many people had to beg in front of legions or Kiwanis Clubs and that kind of thing and basically depend on the goodwill of service clubs in their area. We certainly laud the generosity of these groups, but I cannot tell you how degrading it is to have to beg someone for something that you depend on so fundamentally for your independence.

This is a very important program and we want to see it continue to be expanded as it has been promised. There is no way we want it to be stopped at this point. It is so imperative for people to live with dignity and to live in the community. It is almost like depriving somebody of a pair of legs or something. A person cannot live independently in the community without these kinds of devices. It is really important, however, that the government puts sufficient resources into it to make sure that when it is expanded there are not a lot of problems in expansion.

I guess the problem right now is that there is a shortage of people to do assessments and that kind of thing, and there are long delays for those devices now. With the budgetary commitments, some of those problems can be ironed out.

Once again, I want to stress that this is an extremely important program. All of the disabled community is looking forward to see a continuing financial commitment and support to this program.

Mrs. Potter: Can I add just one thing to the assistive devices? I know many of you may remember this. I think it happened three years ago in Ottawa. There was a gentleman in the hospital. He had had his legs amputated and he could not afford to buy prosthetics. They felt it was cheaper to keep him in the hospital, so they kept him there for months and months. Rather than buy him an artificial limb, they kept him in the hospital, which cost \$600 a day or whatever. It just does not make sense. This is the type of thing we are up against all the time.

Ms. McPherson: Yes, I think we do have to look at the costs. I know everybody is very concerned about rising health and social services costs in this province. You open up a paper these days and that is all you can read about. We are equally concerned about those rising costs, but we, as part of the disabled community, can see that it is cheaper to give somebody a leg brace, as Beryl points out, than keep him in a hospital at \$600 a day, or \$1,600 in an active treatment ward. It is ridiculous.

With the shortage of space in chronic care facilities, I think there really is no choice any more. The numbers of senior citizens are growing. They are jam-packing those institutions. There is no longer the space. We have to be smart and we have to plan for these ahead of time. These kinds of devices are really a very inexpensive way to make that happen.

Anyway, I will pass the buck over to Patrick to talk about advocacy.

Mr. Worth: I will do it by telling a couple of stories of my own. Before the Christmas holidays, I went away with a friend of mine who lives in a group home here in Ontario. He has certain restrictions in the group home, such as if he is late he has to phone and tell them. He did not do that and we were one day late. When we came back, we found out that he had been restricted to his bedroom for one week as punishment for not phoning.

He also had a girlfriend in the group home, someone whom he cared for very much. The people running the group home decided that the relationship was not compatible and this relationship should not be existing in the group home. So they moved her without her having her say and without him having his say. They moved her and would not tell him where she was.

1530

Relationships should be allowed to grow. To punish anybody by putting him in his room for one week is solitary confinement. That is an institutional behaviour, and in this day and age in Ontario it should be against the law for anybody to do that. There was no advocate in place for my friend or for his girlfriend. Otherwise, they would have had more say about what happened to them.

Not very long ago I lived under the same kind of conditions in a very crowded group home with 35 residents. Some people would call that an institution. I call anything that restricts you from community living an institution, because it is done against your will.

I had to line up for my meals. I had to tell the staff where I was going and what time I would be back all the time. I was not allowed to make any choices of my own or any decisions. If there was a curfew hour, I had to be in bed by nine o'clock. Several times I was beaten, abused and punished without there being any crime committed. I did not commit any crime.

Handicapped people often do get abused in places like that, because there was no advocate to say that this should not be happening. Nobody sees it happening, so it goes untold. I was in a sheltered workshop for five years earning \$10 a week, doing jobs I did not want to do. Nobody would want to sit there and package diapers all day or twist-tie dolls. These are very demeaning jobs, but if you did not want to do the job, you were very often told to go stand in the corner. That is something like a teacher would tell a child who was misbehaving in kindergarten, "If you want to act up, go stand in the corner."

If there was no system of advocacy in place, there would be total isolation, there would be unfair treatment, there would be institutionalization, all done against our will. We would not survive.

A little over a year ago, People First of Ontario took part in the inquest of a developmentally handicapped man by the name of John Dimun. He had

a speech problem. He could not speak for himself and he did not have an effective advocate in place to speak on his behalf. He had a very serious illness and he was sick for a very long time. The day he died he weighed 98 pounds, and he was five feet eight-and-a-half inches. All the staff would say was that they did not know he was sick. An advocate would have spent time with him to know that he was sick.

Advocates must not be in a service. The only system of advocacy today is that advocates are operating under a service. It does not work. Services do not recognize needs; services are just services. Advocates must have a means of support, and they must not have to answer to anybody else but the clients they are supporting. Otherwise, they cannot effectively advocate. The means of advocating is that the voice of the person they are supporting will be heard.

I was lucky, I survived, but I should not have had to go through that to survive. I ran away from that system. The day I left I did not have a place to go to. I spent a lot of time out on a park bench until somebody came along and helped me. I could be dead today. There must be an advocacy system in place that will help handicapped people survive in a community on their own or with the proper supports if they cannot make it on their own. We must be able to survive.

Ms. McPherson: Bobby, do you want to talk a little bit about employment?

Ms. Sarlina: A blind 35-year old man with a good education was hired for an excellent job in a management consulting business. He applied to the government for a technical aid which would enable him to be competitively employable. Several months later the employer terminated the man with regret. The aid was not made available until several months later.

Employment programs for disabled people are inadequate. Either people are trapped in underproductive activity in sheltered workshops or they find temporary positions which terminate when government supports are no longer forthcoming.

The government has committed itself to instituting an employment equity program in the public and private sectors and to funding supportive work programs. These would enable disabled people to do real work and to get off the unemployment and welfare rolls.

I think a lot of these issues that we have been talking about go hand in hand with the attendant care, the assistive devices, the transportation. I am not sure if I am going to get to work tomorrow. Who is going to keep me as an employee if I do not get to work? I am not guaranteed a ride with Wheel-Trans.

Basically, I think all these issues that we have discussed are extremely important in terms of full participation.

Ms. McPherson: I think also, when we talk about employment, we cannot avoid the subject of reasonable accommodation. We were pleased to see subsection 16(1a) of Bill 7, which was passed last year by this Legislature, which dealt with reasonable accommodation for people with disabilities. It still has not been proclaimed, and we would like to see a fund to cover undue hardship to make sure that particular subsection 16(1a) is implemented effectively so that it does not bankrupt businesses that cannot handle reasonable accommodation.

The disabled community fought long and hard for 16(1a) to get through and to be passed and, really, you cannot imagine the discouragement and the disillusionment in the disabled community that it is the only section in the Human Rights Code that has not been passed. It is just sitting there in limbo. Every part of Bill 7 has been passed except the part that would allow disabled people to get jobs. I think it is really terrible.

Mrs. Potter: It passed the Legislature; it just has not been proclaimed because there is still a holdup on the regulations. How long do we have to sit back and wait for this inner government argument to finish? If we have to put the proclamation through, let us do it and then have consultations. Surely we are the ones who should be consulted on the regulations, the follow-up with the consultations afterwards to come up with some decent regulations that everybody can agree with. The longer we leave it, the worse it is getting. There is a backlog in human rights which is not getting anywhere. We are going backwards instead of forward. What good is this bill going to do if action is not being taken on it right now?

Ms. McPherson: If we saw the undue hardship fund reflected in the budget, I think disabled people would probably feel that was an indication that 16(1a) was going to be fully implemented. We understand it is going to be proclaimed, and recognition or good planning for that change would have that money already budgeted as a line item. So that is what we are expecting to see in the budget.

1540

Another point related to employment, which I feel is very important as part of the total picture, is education. You heard a lot from the previous party about education. I do not know whether you are aware that people with disabilities have a close to 50 per cent illiteracy rate. To me, it is very disturbing that literacy programs have been cut this year. I see that as one of the only tools for disabled people to get jobs and get ahead and get out of the welfare trap.

Education is so essential to people with disabilities. It must be recognized and it must be funded. I just cannot go on long enough about this. If we want to give people a chance and give them a leg up when they have a lot of different strokes going against them, we have to make sure that they have access to an adequate education. There is no way they are going to get jobs if they cannot even read and write and if they do not have a good education. Anyway, I will get off the soapbox.

Mrs. Potter: If I could go from one extreme to the other with education--it is back to transportation; I left it purposely for this--

Mr. Chairman: I hope you leave some time for questions, because we have a lot of people who want to ask them.

Mrs. Potter: OK. Just let me cite the case of a young lady going to high school and university, getting a good education and working very hard to find a decent job. She found a job, but she was unable to take it because the Wheel-Trans was not able to let her work a midnight shift. You are damned if you do, and damned if you don't. What are we supposed to do? Do we (inaudible) education and employment and just sit back and let it happen? We are not content to do that any more.

Mr. Worth: I want to make one point about employment. Sheltered workshops are not a choice; they are places that are put there for people like us against our will. We do not have any other choice but to go there. Workshops and employment should be choices. We should have a choice of jobs so that we can go and earn a regular salary. If you do not have a job in the community, either you are unemployed or, if you are a disabled person, you are institutionalized because there is nothing waiting for you out there.

To me, making \$10 a week was cheap labour for no reason. I am very capable of working on my own. If there are good people who are disabled who cannot work on their own, then support has to be in place so that they can earn a decent living and go home to a decent home after work, like I do and like everybody else here does. Nobody here would like somebody else deciding the way his life is going to be. Otherwise, we would all be in serious trouble. This whole country would be one big institution. There would not be any employment at all.

Ms. McPherson: Maybe we can have some questions from the committee members.

Mr. Mackenzie: I would respectfully suggest that you probably should be camping on all of our doorsteps over the next year in this Legislature because I think you come before us with some requests that really should be demands and should carry some priority.

I guess what I am wondering in my own mind is this. In the areas that you highlighted--in particular, transportation, assistive devices programs, attendant care for disabled people, the advocacy request--I gather you are feeling that something may be about to happen in these areas. What have you achieved in terms of hard progress over the last couple of years? I know we do not have an advocacy system in place yet, but have we seen substantial improvements in transportation or in the assistive devices program, or are they all things that for the first time you feel you have a commitment to?

Mrs. Potter: We have had quite good response over the last two years, but there is still a great deal more to be done. We are not making enough headway with it. We have got to make sure that these promises that were made during the elections are kept up in front. We cannot allow them to be buried any more. Where everybody else finishes up with promises and commitments, we finish up with surveys. We are tired of surveys. We have been surveyed to death.

Mr. Mackenzie: That is the point I was really making. You have yet to see the hard improvements. The atmosphere seems to have changed.

Mrs. Potter: We feel we have come to the time now--we have sat back and accepted what was given before--when I think we have a right to be in that budget. We have a right to be up front in that budget, and we are not going to be content to sit back and take what they feel is good for us. We are entitled to equality with everybody else, and we intend to get it.

Mr. Mackenzie: As a minimum, what you are looking for in the next budget then are suggestions--you have a letter in the back of your brief here in terms of three recommendations that make sense; although it is basically federal tax reform, you expect to see something like that in place. You are looking for improvements in the transit situation, including the flexibility that allows you to get to work. You are looking for an attendant program that

would allow those who have the ability to stay at home to get out and have some help or even handle a job if necessary.

Most of us, through our constituency offices, know of the shortcomings in the prostheses or assistive devices program. You are looking for a firm commitment there in all of these cases, with the money to back it, that will carry through on these programs.

How much importance do you attach to the advocacy role? I know it is an argument we have made for a long time and which some of us supported in this House, but other than facilitating, it does not seem as direct. I am wondering about that as well. Do you think that can be done? How do you conceive of that being done? Through people whom you recommend and appoint, or through civil servants or independent parties? How do you see the advocacy system working?

Ms. McPherson: There is a suggested Advocacy Ontario model that has been presented. I believe Father O'Sullivan had a good look at it, and he has made some very definite recommendations for implementation. The groundwork has been done on that. We have to stress again, if you have ever heard stories--I just find it appalling that people who cannot speak or who are paralysed and that kind of thing are assaulted and beaten up and sexually abused, and what can they say?

I hear stories on this all the time. I think it is absolutely appalling. I had somebody just the other day from Sault Ste. Marie, a multiple sclerosis sufferer, who had an attack and could not move. She was on the floor and the attendant picked her up and basically sexually assaulted her. She complained to the hospital and nothing was done. This total helplessness is absolutely appalling and it happens in group homes and in institutions to people who have virtually no way to express themselves, and there is just nobody there to help them out. What an awful situation to be trapped and have somebody abusing you or assaulting you and having no way to prevent that from happening. It is just appalling.

Mr. Mackenzie: As a bottom line, in terms of what this committee might be able to do, we can recommend. We still have to get approval of the various ministers or in terms of the budget in the House, but this committee should be specifically outlining these concerns with a hard recommendation in terms of the funding that is necessary for them and you see that as your right and what we could do in terms of the committee here in any recommendations we make to the Treasurer.

Mrs. Potter: Yes, definitely.

Ms. Poole: I would like to thank you for coming here today. We are hearing moving stories which have, certainly for me and I suspect for many members of the committee, told a much more effective story than any number of written pieces of paper that you could have.

It seems to me, from what Bobby said about attendant care and what Beryl added about assistive devices and what you have all mentioned about employment and transportation, you are really not asking for all that much more money, but you are asking that it be distributed more effectively. For instance, with attendant care, surely it is more cost-efficient to have attendant care than it is to have institutionalization and chronic care in that type of facility. Surely it is more cost-effective to be providing transportation so Bobby can get to work rather than unemployment. It is more cost-effective to provide

assistive devices than to keep somebody in a hospital. It just seems to make common sense that what you are asking for, you should not even have to be asking for. I am glad you brought that to this committee's attention.

1550

Ms. McPherson: There is a budget adjustment, but I do not think we should fool ourselves here. There is a financial commitment that has to be made. If you take the figures in the budget and juggle them around, it is not going to do the job. This is a very rich province. We have money. We have to have a financial commitment. It is not good enough to juggle the figures around.

Ms. Poole: I suspect what you may be doing at this stage is asking for--and hopefully you will receive--more money, but maybe five years down the line you will have achieved cost savings in other areas which may not show up until then.

Mrs. Potter: Co-ordination and distribution have a lot to do with it, but we do need the extra money.

Ms. McPherson: Initially, with the transportation, you have to have the capital costs up front. You are absolutely right. There is not going to be a cost saving down the line with that.

Ms. Poole: I just would like to make a comment that perhaps the reason you are beginning to see changes is that people's attitudes are changing, not only government's but also ordinary citizens'. Just yesterday, I wrote to the Speaker of the House and asked him if they would consider having an additional allocation for MPPs' constituency offices so we could make them handicapped-accessible. I am going to pursue that, and I know other members have the same concern. It is one stage in awareness. The fact that you now go to the grocery store and there are places there for the handicapped to park is all part of the process. I think Mr. Worth will find that he will get his advocacy. If he tells that story about the young man and woman who were separated and had no one to speak for them, I think he will go a long way to achieving it. Thank you.

Mr. Chairman: Do you have any idea what kind of a budget commitment you are asking of us?

Mrs. Potter: An overall?

Mr. Chairman: Yes.

Ms. McPherson: I do not think we could really make one, because we are talking in so many areas. If you focused on one particular section, we might be able to give you some idea.

Ms. Poole: You do not have a breakdown on it now?

Ms. McPherson: No. I think government itself would probably have a pretty good idea of some of the financial commitments it would take.

Mr. Chairman: All right. That is fine. I just wondered, in case there was. But we can certainly make recommendations, and the government would necessarily follow through, at least with estimates.

Mr. J. B. Nixon: Just following on that question, I am wondering if you do have ideas of the budget costs for the three specific areas that you dwelled upon today, which are prosthetic devices, attendant care and advocacy.

Ms. McPherson: I think there is a figure for advocacy, if I am not mistaken. Is there not a budget for the advocacy model? We can get figures for you, but they are all broken down in the different areas, so we would have to--

Mr. J. B. Nixon: I can appreciate that. I was not really expecting that you would have them at your fingertips, but if you were able to submit them, I think that would be helpful.

My second question, and this is really just a question of definition, is when you speak of disability, how broad is your definition? I will be very specific. Does that include learning disability?

Mrs. Potter: Yes, all disabilities--physical, deaf, blind, developmentally handicapped, learning disabilities, psychiatric.

Ms. McPherson: Invisible disabilities, like epilepsy.

Mr. Neumann: You did mention that there is going to be a specific cost to implement all of these measures, even though in other areas there could be savings. What is the cost?

Ms. McPherson: We would not have the total figure. We could give you a cost breakdown for some of these items.

Mr. Neumann: You do not have the ball-park figure of what it would cost to implement all of this?

Ms. McPherson: I do not think we have worked that out.

Mr. Baker: I think the problem too is that, for example, transportation--

Mr. Chairman: Could you move forward and speak into your mike.

Mrs. Potter: This is David Baker. I am sure everybody knows David Baker from ARCH. He is our counsel.

Mr. Chairman: I see. Welcome, Mr. Baker.

Ms. McPherson: That is the Advocacy Resource Centre for the Handicapped.

Mr. Baker: Thank you for inviting me to the table. The problem is that, in terms of budgetary, a number of the items are very substantial, transportation, for example. The Trans-Action coalition's proposal is phased in over a 15-year period, so that the cost breakdown would be a matter of implementation over that period. It can become relatively complex. The government is being asked to make a commitment to a 15-year plan. Discussions are going on with Mr. Fulton on that issue. We can provide costs that, to us, would signify a substantial commitment to that long-term program. I think that is probably the best we could do.

Mr. Neumann: Would it be your estimation that the transportation aspect would be the most expensive item in this package?

Mrs. Potter: It is going over the period of 15 years. What we are asking for immediately is that any new facilities being built now or in the future will be accessible. You will find that, when building a new subway station, for instance, making it accessible costs maybe half of one per cent of the capital. If you wait to renovate or retrofit, it is going to cost 20 or 30 per cent. It does not make sense--

Mr. Neumann: Just as we now do with public buildings.

Mrs. Potter: That is right. As we replace an old vehicle, we should replace it with an accessible one. It is going to take all of 15 or 20 years to do that.

Mr. Neumann: I must add my comments to those of my colleague Dianne Poole. Your presentation has been most impressive and I must say I am just sorry the television is not with us today, because of all the presentations I have had the pleasure of sharing with this committee, this is the most moving.

I have one question I am going to ask, and it may seem strange because you may not see how it relates at all to your presentation. Sometimes we are criticized in the House for spending being too high. We are told to cut back on spending and reduce the deficit. As a budget committee, we often hear it is important to reduce the deficit. Do you have any comments on how important the deficit is to you?

Ms. McPherson: I would like to comment on that.

Mrs. Potter: I want to, too.

Ms. McPherson: I guess we all would, actually. Of course, we have been watching the whole debate about the high cost of spending. First, as Canadians and also as people in Ontario, I think we should be very proud of the fact that we do take care of people who do not have the advantages of our nondisabled citizens. We have to recognize that people do need special programs. We should be very proud of those things, and I do not think we should ever apologize for spending money on them.

Second, and most important, I think we also have to recognize that this is a very rich province. We are doing very well despite Black Monday and everything else. We are in a position to take care of people--maybe "take care" is the wrong term to use--to help people who are disadvantaged live independently in the community and live full lives. We should be thrilled with the opportunity we have to do that in this province. I suppose everybody has comments on how to cut the deficit.

Mrs. Potter: Just getting them out of institutions and into decent homes will cut the deficit a lot.

Ms. McPherson: A lot of the programs we recommend would save costs in many ways. If you look at an active treatment ward, \$1,600 a day is a lot of money to be paying for somebody who could be living in a community if he had adequate housing.

Mrs. Potter: Let us get jobs and pay taxes. That will cut the deficit.

Ms. McPherson: Maybe other people would like to comment on that.

Mr. Worth: I do agree you always have to worry about deficits; everybody does. But I am appalled that you would be criticized about deficits. I think you should be spending money in a quality way towards community living. People First took action against the Ontario government last year for giving \$4.5 million to Ongwanada that could have been spent on employment or on proper housing for the handicapped, on accessibility. That is a lot of money. We spent \$183 billion on submarines. Do we expect to go to war some day? Maybe there already is a war.

Ms. McPherson: I think part of it, too, is the efficient use of money. When you are balancing a budget, whether you are a government or a person who is looking at his pocketbook, his bank book, the way you cut a deficit or anything similar to that is by making more efficient use of your money. Some of these programs are really very inefficient in the way disabled people are treated, financially speaking.

1600

Mrs. Potter: Disabled people have taken a back seat for far too long. We have always had the excuse of the cost--it is too much money--or technology--we do not know how. But to me, those are not excuses; they are not good enough any more. I have no time for technology because if they can put a man on the moon, they can put me on a bus, so technology is out. As to the cost, I feel we have contributed long enough and our families have contributed long enough.

Also, when the International Decade of the Disabled was proclaimed by the United Nations for 1983 to 1992, Canada and Ontario did not recognize it until 1985. I feel we have two years to make up on that and we are going to make them up. If we have to camp on everybody's doorstep, we will do it. We are going to make up those two years. Before the end of this decade is over, we are going to have the equality and the full participation that is promised to us in that proclamation.

Mr. Neumann: I will conclude by saying I am delighted to see the evolution over the last decade or so where delegations speaking to governments at all levels--and my experience up to this point has been at the municipal level--delegations representing the handicapped come before government with spokesmen who are handicapped themselves. That is a tremendous step forward. I commend your coalition for bringing all these disparate elements together and speaking for yourselves.

Mr. Chairman: Yes. It certainly is.

Mr. Villeneuve: I too want to congratulate you not only for being here but also for the intestinal fortitude and the strong beliefs that you have that are going to improve your lot in life.

One thing that intrigues me and I would like your opinion on--possibly Bobby or Beryl would be the best to answer this--is attendant care. In the request here for a pilot project on attendant care, are we speaking about in the home, at work or a combination of both? What would you as people with some physical restrictions see attendant care as?

Mrs. Potter: Maybe we could separate that. I am under workers' compensation, so my attendant is entirely different. The workers' compensation people do not provide my attendant. They provide me with the funds. I get a

monthly allowance to provide my own attendant, to hire and fire as I choose, the person I know I am going to be compatible with. Basically, I think that is what is needed for everybody, to be given the opportunity to hire and fire and to be with the person they need.

Attendant care is a very personal thing. Many people are losing their privacy. They are losing their possessions, their money. They are messy. The attendants are people they do not know whom they are working with. Their money has been taken. Their articles have been taken: radios, televisions, watches. They are being taken when the owners have been tucked nicely into bed. This is happening over and over. I think we need an overall look at the attendant care where people have the opportunity to have their own attendant, at their own will, and if they do not like it, are able to hire somebody else.

We are also looking for an attendant in the workplace. Bobby will tell you here today that she started a new job and her mother had to come to work to feed her because there was not an attendant there to help her.

Ms. Sarlina: Basically, I think it is money attached to the person. We talk about brokerage. There is a whole paper on it in response to Mr. Sweeney. It is money that would individualize funding.

Ms. McPherson: I think too, though, people are looking at a wide range. Some people do not want someone else to do it and that is OK. There are some good programs. What I think many people with disabilities are asking for are more options, more--

Mr. Mackenzie: Flexibility.

Ms. McPherson:--more flexibility and also having the attendant attached to the person. A lot of attendant care programs right now are located with the housing, so a person is basically trapped in the housing. You cannot really get out and do things, because you do not have anyone to help you go to the washroom or do very personal and vital things. You are really trapped where your attendant is. That is really no good.

Mrs. Potter: If you have dropped something on the floor--maybe a brush--and you have asked your attendant to pick it up, you have an attendant saying, "I am sorry, that is not part of my job description." I know for a fact that if someone drops something on the floor, it can stop there for a week. The attendant would not pick it up.

Ms. McPherson: There are horror stories. There was a place up near Kingston where in one project a woman dropped a glass. It broke on the floor and the attendant refused to pick it up because she would be fired because it was not part of her job. So the girl went through it with her wheelchair and just cut her hands on the wheels, because the glass was on them, just because of this silly rigidity. You can get three or five people coming through a day doing all sorts of different things that are essential to a person's life and many of them very personal things. Can you imagine having three to five people every day doing all sorts of things? You hardly have time for your own personal life with that kind of thing going on.

Mr. Villeneuve: I think you have presented a scenario that all of us who are very fortunate to not have to live with those conditions do not fathom exactly what you have to live with on a day-to-day basis. I certainly would encourage the government to have a pilot project in place so that we could find out just what the parameters are and how far we could go in assisting in the attendancy of the people with those problems.

with respect to assistive devices program, I was under the impression that this was fully operational to all of those who needed them in Ontario. I am very disappointed with what I have heard here today. Could you expand on that a little more? When do you anticipate this being in place to assist the people who need these devices?

Mrs. Potter: We were supposed to be covering all ages--

Ms. McPherson: I am sorry. I was chattering--.

Mr. Villeneuve: With regard to assistive devices, it was announced, as I recall, and I have been promoting it, since my election way back in 1983, with another government and with this government. I was under the impression an announcement had come forth quite some time ago that had basically satisfied my request. What I hear today is something different.

Ms. McPherson: Do not get us wrong. The government has made a commitment to fully expand the assistive devices program. Now the assistive devices program is under the Ministry of Health, which originally paid for assistive devices for children. The commitment by the Liberal government was to fully expand that program to cover adults of all ages. They are doing it on a device-by-device basis. I think the problem that we are hearing right now is that there is a shortage of personnel out there in the province to assess disabled people for those devices. I guess people in the assistive devices program are just swamped with work. They are having a hard time keeping up to it.

Mr. Villeneuve: Is there a funding problem?

Ms. McPherson: I think there is a very serious underfunding problem. But part of it, too, is co-ordination with education. For instance, one of the reasons there is a shortage of assessors and that kind of thing is that the schools that provide physiotherapists, etc., have such a restrictive number of people they allow in the programs that they are not out there in the field to do the stuff at the other end. There has to be a bit of co-ordination, too, in the planning of some of these quotas for the different programs. That should be expanded so they are out there to handle this. But, clearly, there is an underfunding problem there. It seems to be happening.

Mr. Villeneuve: I certainly want to thank you for your presentation. Do not take a back seat. Be out there in the forefront--

Ms. McPherson: We are.

Mr. Villeneuve: --where people can see you and appreciate some of the real problems we do not realize you live with on a day-to-day basis. Thank you.

Mr. Morin-Strom: I would like to thank the coalition for its presentation to us today. It certainly has been a very valuable one and I think an enlightening one in terms of some of the cases you have gone into and some of the very serious problems you and your members are facing here in Ontario.

I especially commend you for coming forward to the committee. This is the first time I have seen your organization in front of our committee, and I certainly suggest you continue to play a higher profile public role, in

effect, as advocates yourselves on the issues facing your membership as a whole. The government very often does not listen unless you yell, shout and knock on the door until the door falls in.

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We have already seen earlier today, from a couple of educational groups that have been quite effective and quite vociferous in advocating in terms of educational funding for many years, that commitments the government has made in those areas have not been lived up to whatsoever in terms of its election promises. We saw there where a \$300-million commitment turned out to be \$60 million in actual funding during this first year from this government.

I especially suggest that you look very closely in detail at what were the election promises. You have listed some of the election promises here, although you have not given us the greater specifics of them. You might want to look back at what commitments were made to you and your organization during that election campaign and use them as effectively as you can in responding to what action you get from this government in the budget and over the next year.

I would like to ask you about one area in particular that I think is critical, and which I am sure you agree is critical, and that is the area of recognizing the rights of everyone to fulfil himself with useful and productive employment up to his capabilities. You mention that the employment programs for the disabled people currently in this province are inadequate. You state that the government has committed itself to an employment equity program in the public and private sectors.

We know the government committed itself to employment equity programs for the disabled during the last government, under the accord agreement between the New Democratic Party and the Liberals, one of the commitments that was not lived up to whatsoever during the last government. Is employment equity your preferred route or is that a part of a more comprehensive approach to ensuring that everyone does have a right to fulfil himself with employment that is appropriate to his interests and skills?

Mrs. Potter: It is the only way we can go. Voluntary equity does not work. We have to go into employment equity. I am not sure what the figure is for unemployment. Is it something like--

Ms. McPherson: Fifty to 80 per cent unemployed.--

Mrs. Potter: No, but for the nondisabled I think it is eight per cent or something. When you look at the figure for the disabled, between 50 and 60 per cent of the employable disabled are unemployed. That is a pretty high figure compared to the eight per cent. We have to take a stronger stand on employment, and I think employment equity is the only way to go.

Ms. McPherson: Actually, it is interesting to look at the American example. The Americans have passed some employment equity legislation and it has been very effective in getting a lot of employers to look at reasonable accommodation. They have an excellent program down there called the Job Accommodation Network which helps employers make their businesses accessible, and there is a lot of interest in it.

I was involved in some discussions federally up here, and a lot of employers who are affected by federal legislation are very interested in job

accommodation as a result of that employment equity legislation. Even though among disabled people we felt it was rather weak, it does seem to be having some impact. I think it is clear there is an effect that employment equity legislation has. But, clearly, there has to be a large strategy as well as employment equity legislation. You have to have the other components taken care of, for instance, transportation and those other things.

Mr. Worth: There is also a matter of discrimination, I think, for developmentally handicapped people. I could not get a job for a long, long time after I left the group home because I had been labelled retarded.

I think there has to be some sort of system--I do not know what it is--set up for people who have to deal with discrimination problems. I am very capable of working; there was no reason I could not have got a job six years ago. There is discrimination with attendant care and with assistive devices too.

That becomes an emotional problem after a while if you are looking for a job every day. You have to depend on an allowance under the Family Benefits Act and you cannot earn your way. People who are a little retarded want to earn their way just as much as other handicapped people. We want to prove that we can be in the community and live in the community and be a part of all of you people.

Mr. Morin-Strom: When I was in Sweden in the late fall this year, I had the opportunity to look at some of the kinds of employment record they have had there. It was quite apparent to me that they have been far more successful than Canada or, I suggest, the United States in terms of their ability to get people into the workforce. The unemployment level among the disabled was far, far lower than it is here in Canada and the expectation among people in Sweden was that everyone had a right to work and was expected to work.

They did a number of things, one of which was a government co-operative type of operation to give first opportunities to work, often. They also had a heavy program of wage subsidy to get the disabled into workforces, where they would start with as much as a 75 per cent wage subsidy in the first year. The wage subsidies were phased down over a period of years so that, typically, after five years there was no subsidy left whatsoever. But they enabled the workplaces, the employers, to be more willing to take the disabled on and for the disabled to get that opportunity to prove they could do the job. The employers always had the choice, at each stage when the subsidy was lowering, as to whether they wanted to keep the employee. There was not a compulsion to keep the employee on or not, but the programs had quite a success in terms of eventually leading to full-time, full regular-wage jobs for the disabled.

You are probably aware of some of these programs. I am just suggesting that we should be looking at other alternatives that perhaps have not been looked at that have been successful in other countries. I do not know if you have any comments or knowledge of these.

Mr. Chairman: We do have another witness, and I have let this presentation go on a little long. Mr. Harris has a question.

Mr. Harris: I will try to be very brief. I want also to congratulate you and hopefully not take too much time. I think you surely have sensed that this committee will make sure the Treasurer, from our point of view, understands your concerns and they are put forward.

I want to make two comments and I want to ask one question.

Surely it is clear that juggling figures is not going to do anything, and I say this by way of constructive criticism of your presentation. I do not think you should ask for that either or indicate that giving the \$600 bed with the \$200 solution is going to save the government money. It will make the \$600 bed available for somebody else because Treasurers know that once the bed is there, it will be full. So there will not be a cost saving in much of what you say, and that does not diminish from your presentation. I think it is going to cost money. Juggling figures, in my view, is not going to solve any of the problems.

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Second, the balanced budget argument: I believe strongly in a balanced budget. I would assume among your members you would have varying views, as we do among members of the Legislature. Quite frankly, I do not think it has anything to do with your presentation, nor should it, because in my view you are entitled to be considered for what you are asking, before one cent is spent on anything else, equally with all the other programs.

The view of a balanced budget comes about after everything is considered and all the priorities are made; then a decision is made, "Are we as a province going to pay as we go on these priorities, or are we going to mortgage our future?" Do not get caught with that. You do not have anything to answer for as to whether or not it should be a balanced budget, and in my view it has nothing to do with your presentation. So before one cent--not an additional cent--is spent on education or health care, you are entitled to have what you are requesting considered by the government equally. That is my view.

I do have a question, though, that you have not talked about; that is the question of universality. In any of what you are asking for, in any of the programs, does your association have a view on universality? Should they be universally available to all, regardless of ability to pay, or do you have any views or thoughts on that?

Ms. McPherson: I think we should always keep in mind that studies have shown that people with disabilities pay 25 per cent more than nondisabled people. In order to be equal, they have to pay extra to put them in the position where they are in the same place as nondisabled persons.

Many of us in the consumer movement of the disabled see some of these programs as a right. For instance, assistive devices. Without a wheelchair, you are not an equal person. There is no way in the world anyone should have to pay \$2,000 to participate equally in our society. Although a number of organizations may disagree on these issues, our organization--the one I represent anyway--feels that should be a universal program, because nobody who is disabled should have to pay extra to participate as an equal citizen in our society.

I know there is some feeling that attendant care should be universal as well. I do not think the coalition has taken a stand on that.

Ms. Sarlina: I think most of the groups feel the way you have described. The bottom line is--

Ms. McPherson: For assistive devices and attendant care?

Ms. Sarlina: Yes. The bottom line is, why should someone have to pay to use the facilities or to have them in the workplace or wherever.

Ms. McPherson: I think the thing is, these are survival items. A person who does not have attendant care cannot live physically. Everyone has to go to the washroom and eat. A person who needs an attendant has to have somebody to help him do that.

Mr. Harris: What about somebody who is a millionaire by virtue of whatever reason? You are asking for a universal program for everybody on the basis of a disability or on the basis of a program. I am just asking, had you considered that or did that come up?

Mr. J. B. Nixon: You really want to distinguish between universality of entitlement and universality of funding, do you not?

Mr. Harris: Yes.

Mrs. Potter: Can I mention just briefly on the attendant care again, you were talking before about pilot projects. We have had so many pilot projects going on attendant care, it is ridiculous. We have had so many pilot projects. It is ridiculous. We do not need them. We need the proper attendant care program. I think the coalition for the attendant care--

Ms. McPherson: Attendant Care Action Coalition.

Mrs. Potter: ---has a very good program. The Ontario advisory council is coming up with an excellent paper on attendant care. That will be available next month. I hope you will take a very close look at this.

Ms. McPherson: I think at this point we need commitment in the attendant care--

Ms. Potter: Yes, we do.

Ms. McPherson: --into the programs themselves. Everybody knows what the problem is right now. As far as the universality issue, you are talking about millionaires. You will find most people with disabilities are far from being millionaires. In fact, if they make \$5,000 a year they are lucky. We are talking about people who are very poor. They can hardly afford to buy macaroni the next day. You are talking about one in a million people who are millionaires.

Mr. Chairman: I am going to have to cut this off. I have let it go on a lot longer than normal. I think the reason, as Mr. Neumann said, is that you have made a very impressionable impression on us, if I may say it that way. The transcript will show that members of all three parties have made firm statements as to the need to consider you in our submission to the Treasurer. I think you have accomplished what you set out to do today, very much so.

Mr. Neumann: Mr. Chairman, on a point of privilege: I raised the question of the deficit and it was suggested here that somehow it was not appropriate to your presentation and it was inappropriate. Mr. Chairman, I believe that I honoured the delegation by raising that question because otherwise what we are saying to disabled people is that they can only come

before us and present matters relating to their specific brief and disabilities in general.

They have a right to make statements on all issues affecting the government and one of the most fundamental issues affecting this committee and one for which the government is criticized, is the level of deficit. The Treasurer has taken the position that there are two kinds of deficits: deficit in the budget and deficits in programs and facilities in this province. They both have to be addressed and I think the delegation had a right to answer that kind of question, as do all delegations that come before us.

Mr. Chairman: The point is well taken.

Mrs. Potter: I want to thank you all for allowing us to come here today. It has been very pleasant. This has nothing to do with the actual presentation, but gentlemen and ladies, we are looking for tickets to be in the House for the budget, if anybody can help us out.

Mr. Chairman: We will make sure. How many do you need?

Mrs. Potter: We want to fill it.

Mr. Chairman: Oh, you want to fill it. I do not know whether we can fill it.

Mrs. Potter: With wheelchair seats and ambulatory, we can fill the whole gallery if you will let us.

Mr. Chairman: Certainly, I am sure we can find enough tickets for at least those of you who are here today. I do not think I have the power to go any farther than that. Thank you very much for your presentations.

One of the reasons I let this presentation go on this long is that I know Mr. Ginsler very well. I have known him for many years. I know he would approve of that; maybe not completely, but I hope he would.

Mr. Ginsler, please come forward. Your presentation in many respects is a suitable one to follow on from the one we have just heard.

The next delegation is a joint brief from the Social Planning Council of Kitchener-Waterloo and the Ontario Social Development Council. I have received some imperious notes over the course of the day as to expressing jealousy on the part of some of the committee members that the impetus for this brief has come from Kitchener-Waterloo, which of course is my home town. These notes have come without the committee members knowing that I am a former member of the board of the Social Planning Council of Kitchener-Waterloo.

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The brief that Mr. Ginsler is going to be dealing with is exhibit 13, which was distributed some time ago, February 8. There should be copies. Mr. Carrozza can help you obtain a copy if you do not have it. It deals primarily with the sales tax proposals, budget reform and tax reform.

Mr. Ginsler, perhaps you could start by leading us through your presentation. I am sure there will be some questions as well.

ONTARIO SOCIAL DEVELOPMENT COUNCIL

Mr. Ginsler: Thank you, Mr. Chairman. With me today are Margaret Motz, who is president of the Social Planning Council of Kitchener-Waterloo, and Neville Twine, who is executive director of the Ontario Social Development Council. As I think you mentioned, the hat I am wearing today is as president of the Ontario Social Development Council.

The reason we are doing a joint brief today is that we would like to paint an overall perspective of our concerns about tax reforms as they impact on nonprofit organizations and the people who use those services, both from a general perspective and from a more specific local perspective. I will be presenting some of the general perspectives and Ms. Motz will be presenting some of the local perspectives on behalf of the Kitchener-Waterloo social planning council.

Just by way of introduction, I am sure I do not have to lecture anybody here on the role of nonprofit organizations in Canada. They certainly play a central role and have been recognized as doing so through tax legislation federally for a number of years via the income tax deduction that is provided to individuals or corporations that donate to nonprofit registered charities.

The reason we are here today is not so much to address that part of the tax reform proposals, the part which is currently before the federal government, but rather stage two, which has come out and which has been more or less shuffled aside because it was not on the current agenda of the federal government.

The reason we are somewhat concerned about it is that stage one and stage two are a matched pair. Stage one is an income-reducing measure from the point of view of the federal government. Stage two is the other shoe that will drop in order to bring back the income which has been lost through stage one into the federal treasury.

Mr. J. B. Nixon: One is before the election and one is after.

Mr. Ginsler: One is before the election and one is after the election; that is right. We are concerned because the effect of stage two on nonprofit organizations is somewhat silent in that most nonprofit organizations have focused on stage one and the impact on charitable giving. We are more concerned, as I said, with stage two.

The reason we are here today talking about the federal tax legislation is, of course, that the federal government would dearly like the provincial government to join in on its national sales tax. I think it is also probably attractive to many provincial governments to saddle in with the federal government and have what would otherwise be called "provincial sales tax" called "national sales tax." Without that particular attribution, it is a little easier to slide it on to a number of services and products.

What we are here to do today is not, for once, to ask you to spend more money but to suggest that there are ways that you may actually save money and save the operations of many organizations.

In most people's minds, charities probably do not fall into the realm of goods and services on which sales tax would normally be applied. Charities, after all, are full of people doing good things for people in need because

they want to and because people need the kinds of services that charities provide, but they are not in the same kind of marketplace as businesses. Although that may have been true 25 years ago, it is much less true today than it was then.

Many nonprofit organizations, many registered charities, in fact, charge a fee for the service they provide, whether they are counselling agencies, whether they run camps, whether they run hostels or whether they run day care. Many of the kinds of programs that nonprofit organizations run are similar in many respects to services provided by the business community.

Just as nonprofit counselling agencies provide family counselling, there are also in most communities private counsellors who do this as a business. Just as nonprofit agencies provide camping experiences, there are profit-centred camps. Just as nonprofit organizations run day care--and that is probably the most obvious comparison--there are often in most communities other day care centres run for profit just down the block. It is no longer the case that nonprofit organizations do everything with no fee applied to the user.

Our first concern relates to subsection 10.3 of the federal discussion paper, which says in part, "Nonprofit organizations and government would be taxable on any commercial activity involving the supply of property or service of a type that is generally supplied by a commercial business."

Again, this relates directly to the kinds of activities I have just been describing, everything from day care to household programs, to day camps to family counselling. Its application, if it goes through, will force a sales tax to be charged by all those nonprofit organizations.

We are guessing at what that sales tax would be, because the federal discussion paper does not mention a specific amount, but the working assumption in most circles, as the federal government has now stated that most foods will not be taxable, is somewhere in the range of about 9.5 per cent. The working assumption on what the provincial tax might be, if the base were to be broadened from what is currently applied to all of the applications suggested under the federal paper, would be somewhere in the range of about four to five per cent. Put them together, and you have something like a 13 per cent sales tax on these services provided by nonprofit organizations.

Most nonprofit organizations, unlike most businesses, have a sliding scale for the fees for their services. Somebody who can pay full fee will pay the full cost of that particular service, whether it is an hour of counselling, a week at day camp, or whatever. The major difference between nonprofit organizations and the business sector is that if you cannot pay, there will be a sliding fee scale, the complimentary portion of which is either paid for by government through a purchase of service, through a community funder like the United Way or through general community donations to the organization. In that way, necessary services are provided to people who cannot pay full fee.

If, on top of the sliding fee--that fee which is applied which is less than the full fee--you attach a 13 per cent sales tax, obviously something is going to have to give somewhere. Either the fee will have to be reduced so that the total including tax is what it was before the tax was applied, or the organization, the charity, is going to have to go back to the local municipality, the province, the United Way or whoever and say, "We need 13 per

cent more in funding just to provide the same level of service for the same cost as we did last year." That is obviously going to have a major impact not only on the agency's budget but on every funder of that organization.

We have major concerns about the level of service that would be able to be provided through nonprofit organizations should a sales tax be applied to their activities.

Another area of concern of ours is the rental of accommodation. In subsection 11.2(b) of the federal paper, it says: "All rentals of 30 days or more in a residential dwelling will be tax exempt. Thus, most apartment and house rentals will not be subject to tax."

What we have to realize is that the major group, not included in that "most," is the section of the community that rents rooming houses by the week, primarily. They tend to be those of lowest income in any community. What the suggestions are in this discussion paper, this proposal, is that those who have the least ability to pay rent, those who rent rooms by the week or room and board by the week, will now have to pay a 13 per cent sales tax on the cost of that room.

I think we all know exactly where the affordability crisis is in housing. It is certainly at the low end. It is certainly a problem that the province spends considerable amounts of time with already. I just add 13 per cent to the size of that problem.

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The other area and the other specific service about which there is a considerable affordability problem of course is day care. It is an item which is in very short supply, it is an item which governments already subsidize to a considerable degree and it is an item which many middle-income parents are hard pressed to afford because they are above the threshold yet are still paying \$4,000 or \$5,000 a year for day care. Add 13 per cent to the cost of day care for any family and you have created a major income crisis for that family right there.

Those are the overall concerns about what will happen with the imposition of sales tax reform to nonprofit organizations in general. What I would like to now is turn the floor over to Marg Motz to talk about specifics in a local community.

Ms. Motz: Mr. Ginsler and I have been here since earlier this afternoon, and it is my first time visiting a committee such as yourselves in this House. I really was impressed with the attention you have given. It was a long afternoon for me, and I think I came in when you were well on your way. So I really admire the attention everybody has given the delegates who come.

On this issue, Mr. Ginsler has reviewed some of the global implications. I will just give a few local examples. These examples were prepared in consultation with the executive directors of the affected agencies. I would like to refer first to subsection 10.3, "Nonprofit organizations and governments would be taxable on any commercial activity involving the supply or service of a type that is generally supplied by a commercial business."

It is our understanding that the statement "generally supplied" is defined as any reasonable amount of activity in the supply of a service by a

commercial business. Commercial businesses, as Mr. Ginsler has said, provide a number of social services. For example, counselling services, short-term accommodation, homemaker services and child care services are all purchased from a commercial operator. As a result, taxation of many social services, including these examples, will occur.

The first example from the Kitchener-Waterloo area is a much-needed counselling service. Individuals who can afford to purchase services on their own behalf do so, while local and provincial governments purchase service on behalf of clients in need and unable to pay a minimum fee. Fees are then subsidized by charitable donations and do not reflect the actual cost of the service. The imposition of an eight per cent federal tax on this essential social service will result in a very substantial increase in this agency's budget made up of charitable donations and fees for service. Using the agency's 1987 budget of \$120,000, the federal tax portion alone would impose a new operating cost of approximately \$10,000.

Assuming that a reduction in the range of services offered or the total number of clients served is not an acceptable solution to this new funding burden, the agency will be forced to consider one or all of the following options: raise the minimum fee charged to individuals, and thus possibly limit access to service; raise the minimum fee paid by local and provincial governments on behalf of clients in need; request more funding from charitable groups to subsidize the minimum fee.

Increased funding from charitable and government funders may not be possible. As a result, the agency may be forced to absorb all or part of the cost as funders continue to face ever-increasing demands for scarce social service dollars. They may be forced to reduce the range of services or the number of service units available to clients.

The second agency provides emergency accommodation. Kitchener-Waterloo, like many other communities, is in the midst of a housing crisis. We have a vacancy rate of .02 per cent, or one unit out of 500. Housing costs are increasing rapidly, limiting access to affordable housing. We see emergency housing as an essential social service. As Mr. Ginsler pointed out, subsection 11.2 notes that all rentals of 30 days or more in a residential dwelling will be tax exempt. Thus, most apartment and house rentals will not be subject to tax.

Emergency accommodation in the form of crisis shelters generally takes the form of short-term accommodation of less than 30 days. Sales tax reform exempts residential rents of 30 days or more, failing to protect crisis shelters at a time when the demand for emergency housing is rapidly increasing.

One such agency in our community secures its funding from residents' fees, charitable donations and government grants. A federal tax of 10 per cent on accommodation of less than 30 days would add over \$60,000 to the cost of accommodation for this agency.

Charitable donations and grants from governments are limited. This agency may try to absorb the new financial burden with fewer ancillary services--and these could be personal services in counselling, crisis services, alcohol addiction services--so fewer of these will be available to its very needy clients.

Alternatively, residents will be expected to pay more of their very limited financial resources. Some of the most needy and least financially able members of our community will be forced to bear the burden of this tax reform proposal.

The final example I want to present today is an estimate of the total impact of the proposed new federal sales tax on individuals and local governments for four essential programs: integrated home care for the elderly and handicapped, private home child care, hospitals, crisis shelters and counselling services. All of these services are in part provided by commercial businesses and would, by definition, be subject to the proposed sales tax.

Using a 1987 region of Waterloo budget estimate of over \$7.5 million for these essential social services, the proposed new federal sales tax alone would result in a new cost in excess of \$600,000 to be shared by regional government and agency clients. These are people least able to afford such a drastic increase in service costs.

Sales tax reform as proposed in the June 1987 report needs to be amended. Those in need in our communities must be protected and be assured that much-needed services will continue to be affordable and accessible.

Mr. Ginsler: As you see from the last page of our brief, we do have a few recommendations for the committee.

The first is that supplies--"supplies" being defined by the federal tax department as goods or services--provided by a registered charity or a government in the furtherance of its objectives not be subject to a sales tax and that the taxes applied to supplies used by a registered charity or a government in the furtherance of its objectives be refunded;

Second, taxes applied to supplies used in the fund-raising activities of a registered charity be refunded;

Third, room and board or room-only rental arrangements, excluding hotels, motels, inns, etc., not be taxed;

Fourth, and this is consistent with the current provincial sales tax, children's clothing not be taxed;

Fifth--certainly an area that we find in much need--day care not be taxed.

We would be pleased to answer any questions the committee might have.

Mr. Harris: I agree with all your recommendations on the rental accommodation side and the hospitals and the room and board and what not. I think what you are saying there makes a lot of sense.

I guess I am one, though, who does start to have some difficulty when we get into nonprofit or not-for-profit versus the private sector. Some examples that you do not mention are curling clubs, which are now coming out nonprofit--most of them went that way to qualify for Wintario grants-- and golf clubs. The Young Men's Christian Association in my town of North Bay runs runs head-to-head competition in squash courts with private clubs, head-to-head competition in fitness programs with private clubs, in gymnasium programs with private clubs. I am sure there are many other examples.

I start to have some difficulty as to where we draw the line with nonprofit. I am also one who is starting to have some difficulty with church exemptions, I might tell you, and I have raised a few issues in the House on that. Where they are out there and competing, they ought to be competing fairly with the private sector. Otherwise, this country of Canada will all be not-for-profit and quite frankly, in many of the areas most people will make much more money that way. I see that evolving as well.

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Let me ask you specifically. I would be interested in how the government is going to draw the line on some of these. But in item 5, that day care not be taxed, there you are talking about both profit and nonprofit, I assume.

Mr. Ginsler: Our concern is directly nonprofit. Certainly, the concern voiced by the senior officials at the federal Department of Finance is not to tax nonprofit day care. Their concern is that nonprofit and for-profit day care be given equal footing, the level playing field kind of concept. Our concern is not so much that profit-based day care not be taxed but that nonprofit day care not be taxed, and I realize that in itself would provide an advantage to nonprofit day care.

Currently, the advantage is somewhat mythical in that most day care centres have waiting lists, whether they are profit-based or nonprofit-based. The shortage in supervised day care is substantial enough that even with the current federal and provincial programs, it will be a decade or more before there are enough spaces to meet the demand. So whether you are profit-based or not, you are going to be full.

Mr. Harris: What difference is there?

Mr. Ginsler: The difference is that nonprofit day care centres will accept care for children of parents who cannot afford to pay a full fee.

Mr. Harris: As do profit-making day care centres.

Mr. Ginsler: On purchase of service, if somebody else pays the rest of the way.

Mr. Harris: The difficulty I have is that there are a number of people who would argue that there would be no shortage of day-care spaces if the private sector had some assurance that if it invested the dollars--it is the same with the housing problem--the government would not come in with nonprofit and unfair competition and what not in there as opposed to supplying the dollars to those who need the help to pay for the services.

I agree with a lot of your brief. Your recommendation 5 says that day care not be taxed. You do not differentiate there between profit and nonprofit, although by clarification I think you would favour one or the other. The difficulty I have with that and with your tone is that, to me, you basically are projecting a philosophical argument that nonprofit is cheaper and better, and I disagree.

Mr. Ginsler: No, I have not said that anywhere.

We are getting into the economists' arguments. Half of the economists say the supply is too expensive and the other half say it is priced right but people just do not have enough money to buy it. We can spend for ever talking

about whether you subsidize the service or subsidize the user. Currently, it is the user who does not have an affordable service who is suffering through that debate as it goes on at the federal and provincial levels.

Our concern is that users, who are often denied work because they cannot find affordable day care and therefore have to stay at home, have access to sufficient, supervised, affordable day care. If you put a 13 per cent sales tax on that, all it does is reduce by 13 per cent the affordability of that day care. That is what our concern is.

Mr. Harris: I understand that concern. If the context of your brief is to identify those things that you say are essential services and to say that they should not be taxed, I understand what you are saying.

I think what the federal government and others are saying to you, which I agree with, is if the exercise is to come up with an advantage to nonprofit in the areas where it can be provided as either nonprofit or profit-making, then you are interfering with that balance even further and perhaps not solving the problem.

If you are looking for affordable health care services in Florida versus Ontario they are now much easier to find in Florida, and cheaper than even what OHIP is paying, in many cases. Many would argue--and I am starting to become sympathetic to that view--that it is because we have shut out the private sector. That may sound very controversial, and it is, but I am being particularly provocative, if you like, to try to ascertain exactly where you are coming from on this.

Am I fair in saying your brief is that, in all of these instances, you are asking that it be the nonprofit sector of these that not be taxed, so go ahead and tax the profit, or is it that you are identifying services that, indeed, you feel are essential and none of them should be taxed regardless of how it is delivered?

Mr. Ginsler: If we go back to first principles, we start with what a charitable organization is. It is an organization without share capital. Its philosophy is inherently different from that of a profit-based organization. That has been recognized for years through the federal tax legislation. That is why, when you donate to a charity, you can deduct some of that donation from your income because it is a different kind of organization.

What we are saying is that those organizations in communities will be severely hampered from providing an essential service if they are taxed.

Mr. Harris: It is the same as the private sector company that is being taxed if they are competing with them providing that service.

Mr. Ginsler: In many instances they are not competing; they are simply providing a service that is also provided in the community. Nobody is really competing with the hostels. Low-end motels are not really competing with emergency hostels.

Mr. Harris: I have agreed with you on those, by the way.

Mr. Ginsler: But the federal government is saying that, in essence, the tax department cannot tell the difference between a hostel and a guest cottage, or a hostel and a poor person's motel. What we are saying is that, in

some way, something has to be done to recognize the difference. If the only way you can recognize the difference is that the hostel is incorporated as a not-for-profit, then that is a sufficient way to recognize the difference.

Mr. Neumann: First of all, I want to thank you for your presentation. Your main thrust appears to be to advise this committee on your perspective with respect to the federal tax proposals, tax changes. You focused a great deal on the revenue side. I do not really have questions on that. My question was with respect to the philosophy of reducing income-based taxes and increasing sales taxes. Do you have any comment to make with respect to those issues?

Mr. Ginsler: As the brief says, briefly, we have some concern about the revenue-gathering thrust moving from a progressive income tax base to a consumption tax base, which is inherently regressive. If you look at the Statistics Canada expenditure figures where it goes by income category on how much each individual or family spends on each individual item and in total, what you will quickly see is that if you are in the lower quintile of the population, the lowest 20 per cent, you are spending 100 per cent of your income. In fact, if you are in the lowest decile, you are in a net loss position.

If everything is taxed, you pay a consumption tax on all of your income. If, on the other hand, you are in the upper 20 per cent, you do not consume with 100 per cent of your income you save some. You do whatever with it that is not going to be taxed. So you will be taxed on less of your income if you are rich than if you are poor. We have difficulty with that kind of philosophy. This kind of broad-based sales tax is so seductive to governments because one per cent of a broad-based sales tax at the federal level is equal to \$3 billion of income. Jacking it up just half a per cent at a time is a very nice way of generating more income.

The other part is the partial de-indexing. If you start from day one and say, "This is the way everything is going to be set up," and levels are increased by the rate of inflation less three per cent, as is the current rate, then the government automatically benefits and increases that disproportionate tax bite on the poor by virtue of the fact that more people will be paying more taxes because their income may have gone up four per cent but their claims will only be able to go up by one per cent.

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That whole shift in philosophy to a consumption-based tax is regressive from our point of view. It moves from an ability-to-pay position to an inability-to-pay position. The less you have, the more you are going to wind up paying.

Mr. Neumann: So you would basically agree with, not necessarily the specific proposal, but the thrust of the first group we heard from this morning, the Federation of Ontario Cottagers' Associations, which wanted the province to reduce dependency on property tax and increase revenue from income taxes?

Mr. Ginsler: I was not here for their brief, so it is difficult to comment on it.

Mr. Neumann: They were arguing for moving away from regressive to more progressive taxes.

Mr. Ginsler: Certainly, for local social service expenditures, and much of this is going to be borne by the local and regional municipalities, the property tax base, again, is a regressive tax base to raise money for services that have no relationship to property and are often inversely related to property. The senior citizen who is sitting in a comfortable house that is paid for, but who is on only old age security guaranteed annual income system and guaranteed income supplement, cannot afford increases in property tax, property taxes which go to pay for social services, but that is where that money is coming from at the local level. It is the same basic principle.

Mr. Neumann: I would like to clarify for the record, that although our agenda says Social Planning Council of Kitchener-Waterloo, the paper says jointly presented with the Ontario Social Development Council.

Mr. Chairman: Yes, I corrected that when I introduced them.

Mr. Neumann: I wonder whether your council or the Ontario council has a position with respect to budget deficit. In the grander scheme of things, how important is it for this committee to focus on reducing or eliminating deficit as a top priority?

Mr. Ginsler: Our council, the OSDC, does not have an opinion about that. The best I would be able to do is guess what their opinion would be if they were given the question. My guess would be that providing basic, needed services to people in need has to have priority over lowering the deficit.

Mr. Morin-Strom: I would like to thank both development councils, the provincial association as a whole and Kitchener-Waterloo, for their presentation here today. I note that the essence of your recommendations at the end is the areas in which you think there should be exemptions from a broad-based sales tax. There is a lot of appeal in a broad-based sales tax, certainly in terms of finance ministers, for the amount of revenue it generates. There is also some appeal in the sense that it is a simpler tax to collect and it eliminates exemptions.

I wonder whether you should really be taking a position on whether we should be trying to go towards a broad-based sales tax or whether we should be staying with the kind of provincial tax we have now, which makes quite deliberate choices as to what is going to be taxable and what is not. I wonder why you have taken the tack of looking for exemptions from the broad-based tax rather than saying we should stay with what we have now.

Mr. Ginsler: I guess strategically we are making an assumption that the current federal government is committed for better or for worse to implementing a broad-based sales tax. Either the federal government or the federal government in concert with Ontario will be taxing on a broad list of items. I suppose what we are suggesting is that the province, before it agrees to join with the federal government--because part of the attraction is for the two to combine as one--as it negotiates with the federal government on whether or not it will join a broad-based sales tax, use as one of its principles that it will join if, and only if, certain absolute essentials in the community are not taxed.

Obviously, we have already seen some retreat from the absolute broad base at the federal level by the decision not to tax most food items. What we are suggesting is, with appropriate provincial pressure, there may also be an agreement on the federal government to not tax charities for what they do. Under those circumstances, probably from our narrow point of view, because we

are looking at this from a narrow base right now, it would be preferable to have the province join the federal government in a national sales tax, which did not tax food and the activities of charities and the things we have been mentioning in this brief, rather than the province just tax what it taxes, and have the federal government tax everything, including charitable activities, because it wants to anyway.

Mr. J. B. Nixon: I have a very quick question, following up on some earlier questions. Did I understand that you were advocating that local municipalities not have a local property taxing power?

Mr. Ginsler: No. What I was suggesting was that local property tax, which at one point funded roads and sewers and things like that, is now spending at least as much money on social services as on property-based services and, in our view, it is an inappropriate tax for that kind of activity, not for roads and sewers.

Mr. J. B. Nixon: I understand the principle. How would you raise those moneys?

Mr. Ginsler: Philosophically, we would support a progressive tax base, so that the money that is lost on that would come back through personal and corporate income taxes where the amount paid is linked to the ability to pay.

Mr. J. B. Nixon: The correlative argument is, of course, that he who pays the piper gets to call the tune. Would you see that as diminishing local autonomy? Why should a local town or city have the right to independently administer social programs and educational programs if it is not raising the taxes to participate in those programs?

Mr. Ginsler: For one thing, they understand the needs better. The corollary to your corollary, or the anti-corollary to your corollary, is that those municipalities that have the greatest need also have the least ability to pay, because those with the greatest unemployment, those with the greatest social needs, have the weakest tax base. To say these necessary services will be paid for by your property tax base is to punish those communities that have the least ability and the greatest needs.

Mr. J. B. Nixon: I am not sure about that. It seems to me that if I looked at Metro Toronto, or some of the divisions like North York, part of which I represent, we have very wealthy areas and we have very poor areas. The rich are taxed, because they have expensive property, to pay for the services provided to those who live in a lot of high-rise apartment buildings, which have very low taxes.

Mr. Ginsler: If you look at Metro Toronto, though, your whole perspective will be thrown out of whack because, although the Legislature sits here, Metro Toronto is not Ontario.

Mr. J. B. Nixon: I realize that.

Mr. Ginsler: If you go to Kenora and say, "Raise it from your tax base," or if you go to Moose Factory and say, "Raise it from your tax base," the North York or the Metro Toronto perspective is really totally irrelevant. They do not have much of a tax base to raise anything from, despite the fact that the unemployment rate will be seven times what it is in Metro Toronto, and the need for affordable housing is just as great.

Mr. J. B. Nixon: Let me ask you this, though. I have a feeling that places like Kitchener-Waterloo and Toronto end up municipally financing a lot more in terms of educational programs and social services, because they have that higher local tax base. I am not putting a value on that; I am just trying to establish whether or not that is true. Whether it is good or bad is the next question.

Mr. Ginsler: If it is true, what it says is that those communities that are best off will get better off because they can afford to, and those communities with the least financial resources will not be able to afford to provide those services.

Mr. J. B. Nixon: I am not saying it is a bad thing or a good thing. I am just trying to establish whether you agree with the proposition that it is a fact.

Mr. Ginsler: Without looking at the detailed expenditures, I really could not tell you per capita whether Waterloo region--

Mr. J. B. Nixon: I am not trying to be argumentative, but you talked about Kenora. You say it has a very limited tax base and say it cannot provide the same degree of social services.

Mr. Ginsler: I suggest that probably Waterloo region is better served because it is able to draw from the local tax base, but that is not to say it is an appropriate tax base from which to draw.

Mr. J. B. Nixon: Where would the money go? I am just pursuing this without any philosophical line behind it. Assuming the tax base is not drawn upon locally in those wealthy communities to fund those social services, would you see it as an inequity that those in pre-existing wealthy communities, like Kitchener-Waterloo and Metro Toronto, would have greater disposable income than the people in Kenora?

Mr. Ginsler: Oh God, we are really getting beyond the scope of the brief here. I am no longer speaking on behalf of the Ontario Social Development Council. This is now just sort of a discussion.

Mr. J. B. Nixon: I agree. It is just a discussion.

Mr. Ginsler: If we were to start from scratch, I think a progressive tax bite on individuals and businesses which was then equitably distributed--I am not saying it is equitable to distribute on the same dollar per capita basis to Kitchener-Waterloo as it is to Kenora or Moose Factory, because the need may be greater, but certainly if the money comes in on the basis of ability to pay and is block-funded to the municipalities on the basis of need, then you get an equitable distribution of funds and an equitable resourcing. That is the direction I hope we would go in. What we have now is that those who are best off get best served.

Mr. Haggerty: Just following along the questioning, I suppose when we look at the sales tax--and every government seems to be hitting the sales tax--we see the federal government has indicated in its white paper that it wants firmer or stronger claws on that sales tax. We have seen it now in the service sector; the federal government will be getting more revenues that way.

I have often thought maybe there was a different way to disburse that sales tax revenue, perhaps with more equity in it. Originally, the sales tax was handled by the municipalities, and they gave quite a bit back. After the war, there was the Rowell-Sirois study on it, and that is when the municipalities gave it up. One of the reasons it was drawn province-wide was that they would take the revenue generated by that from healthy communities, and then it was supposed to be disbursed or handed back into the communities that were less fortunate, in a sense, like Ignace and Sioux Lookout.

We see now the federal government has moved more so in this area. They were considering a tax on all food. That has been shelved at present, but I am a little bit sceptical. As we get further into free trade and the removal of the tariffs on food coming into Canada, that it is a loss of revenue. The federal government of the day will be looking more closely at this area of taxing food, which I am opposed to.

Is there a possibility that this thing could still come about, that food will be taxable? They have to talk about additional revenue, and that is the last resort there is out there. We have seen the consumers hit by the one cent per litre tax in this recent budget. We know we will not get the full impact of that white paper and the tax reform that the federal government talked about until some time in June, to know just whose pocketbook it is going to hit. You can rest assured it is going to hit the higher-income bracket or the financial institutions or corporations. They have already been given concessions in that area.

Mr. Ginsler: I suppose the short answer is anything is possible until after third reading, but practically speaking, having said that most foods--and we do not know what most is yet--would not be taxed, it would probably be political suicide for a government to go back on that. That is supposition only. I would not think the federal government will go back on that now. I hope not.

Mr. Haggerty: If you have the inside information that they will not go back on that area, I wish you could tell me.

Mr. Chairman: I do know whether Mr. Ginsler has any inside track into Mr. Mulroney, though. I have a question if you are finished, Mr. Haggerty.

Mr. Haggerty: Yes.

Mr. Chairman: With the very specific recommendations you have made, have you done any research, if it were the case that we were to decide as a province that we do want to be involved in the national sales tax, into whether we can very easily exempt ourselves from these areas in so far as this province is concerned and still be involved in the rest of the tax?

Mr. Ginsler: You would have to talk to the federal representatives on that. I certainly cannot speak for them; I have no idea. But it is easy to identify, to hive them off because of the characteristic of the organizations. They are all incorporated differently from businesses. It is easy to put into legislation. Whether it is easy to get agreement from the federal government is something else.

Mr. Chairman: I guess I am gathering from you that it is not inconceivable that it could be done.

Mr. Ginsler: We hope that it could be done.

Mr. Chairman: I probably should warn you that we have had information from the Treasury that some decisions need to be made this month with regard to our involvement, for collection form purposes and things of that nature. Unfortunately, some events may precede the report of this committee, but the timing of our hearings was such that we could not avoid that.

Are there any other questions? I appreciate your presentation. I think we all appreciate your presentation. A personal note is that I was quite proud of the presentation. There is a note here from Mr. Mackenzie to the effect that his involvement with the social planning council led him to the New Democratic Party. Mine led me to the Liberals. I do not know what it was.

Mr. Mackenzie: Where did you go astray?

Mr. Chairman: I do not know. We were all assisted by what you put together here and I am sure we are going to take it into consideration.

Thank you for waiting. It was a long afternoon, as you pointed out. We appreciate your compliments to our attentiveness. Thank you.

Mr. Ginsler: Thank you very much.

Mr. Chairman: We will be here tomorrow morning. I should inform the committee of something that has occurred today. Apparently, in the Congress of the United States, the news was proffered that on the omnibus trade legislation, both Houses are to have their act together by March 23. I take it that means that the bits and pieces of a final bill are hopefully going to be prepared by then and it will be debated in the Congress the week we are scheduled to be there, March 27.

My reaction to that is quite positive, although Mrs. Oberstar is concerned about facilitating us with witnesses at that time. She is trying to tie that down at this moment. I am simply reporting on that. I think she may be coming back to us with a hint that it would be preferable to go afterwards. I hope that is not the case and I resisted that. It is also going to be difficult for us because the House will be sitting the next week.

The committee adjourned at 5:18 p.m.

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